



7th International Strategic Management Conference

The Impact of Strategic Planning Activities on Transylvanian SMEs - An Empirical Research

Oana Adriana Gică^a, Adina Letiția Negrușă^b a*

^a*Babeș-Boylai University, Horea Street, No.7, Cluj-Napoca, 400174, Romania*

^b*Babeș-Boylai University, Horea Street, No.7, Cluj-Napoca, 400174, Romania*

Abstract

The purpose of this paper is to investigate the nature of the strategic planning-performance relationship in the case of a sample of 200 SMEs from Transylvania, Romania. The aggregate indicator for strategic planning comprises seven indicators that represent each a component of the strategic planning process: mission, objectives, internal and external analysis, strategic alternative selection, implementation, control and evaluation. For overall performance aggregate indicator we considered the objectives achievement level, the perceived performance in 2008 compared to 2007, number of employees' dynamics and turnover dynamics. For a in depth analysis of the influences of strategic planning activities on performance we tested forty hypotheses using Pearson Chi Square test. The results didn't support a positive relationship between the overall strategic planning indicator and the overall performance indicator but several hypothesis regarding partial influences of the components of the two aggregate indicators were confirmed.

© 2011 Published by Elsevier Ltd. Selection and/or peer-review under responsibility of 7th International Strategic Management Conference

Keywords: performance; strategic planning ; small and medium-sized enterprises

1. Introduction

SMEs dominate the Romanian economy, and in the context of globalization they will have to face competition not only from the large companies or from the same size category in the country but also from the international firms. We consider that the practice of strategic planning will enable them to define their competitive advantages that will ensure their survival or even growth in such a context, in more real terms.

The aim of this paper is to investigate whether there are significant correlations between the main elements of a strategic planning process namely: development of a mission statement and objectives, the analysis of the external and the internal environment, the selection of the strategic alternatives, the implementation, the control and the evaluation of the strategies on the one hand and several descriptive elements of business performance such as objectives level of achievement, level of performance in 2008

* Corresponding author. Tel: +40264599170. Fax: +40264590110. *E-mail address:* oana.gica@tbs.ubbcluj.ro.

compared with 2007, the number of employees dynamic and turnover dynamic on the other hand, in the case of small and medium sized enterprises from the North Western Region of Romania.

Since there are only a few empirical studies on managerial practices we consider that our paper will contribute to filling the void existent in the research of the field of strategic planning in Romanian SMEs and its impact on performance.

2. Literature review

Al Ghamdi [1] considers that nowadays, the use of strategic management is not optional any more, being a mandatory decision in front of serious challenges that organizations have been experiencing. Also the author considers that the need for developing a strategy has increased due to globalization, technology advancement, deregulation, emerging of new markets and industries, and economic restructuring. Wilson [2] considers that navigation through such an environment requires a strategic compass.

Strategic planning can contribute to performance by generating relevant information, by creating a better understanding of the important environment, and by reducing uncertainty [3]. It was also found that strategic planners possess better ability to adapt to their external environment, are more able to attract quality labor force, have higher level of job satisfaction among their employees, and are more able to retain their current human resources [4].

According to Schwenk and Shrader [5] strategic planning should be seriously considered by small firm managers regardless of whether planning is highly sophisticated (Bracker et al., 1988 in [5]), or facilitated by “outsiders” (Robinson, 1982 in [5]), or simply accomplished in spite of severe resource constraints (Mulford et al., 1988 in [5]).

Until now there were several researchers that conducted studies regarding the influence of strategic planning on firm performance in the case of small and medium sized enterprises. According to Kraus, Harms & Schwarz [6] seventy nine percent of the twenty four studies on this topic found that strategic planning has a positive influence on firm performance, the same positive relation being identified also by Schwenk and Shrader [5] that overviewed twenty six studies. They also identified several studies that did not find a relationship at all [7, 8, 9, 10, 11] and one study showing that the direction of the relationship between strategic planning and performance depends on the industry [12].

This variety in research results may be partly explained by the diversity in the small business population in terms of, for example, size of firm (eg strategy making certainly differs between firms employing 2 v 30 people) and industrial sectors in which small firms operate [13].

3. Methods

We have conducted a questionnaire based survey with the entrepreneurs or managers of some SMEs from North Western Region of Romania that were involved in international activities. The sample comprises 200 SMEs from Bihor, Bistrița-Năsăud, Cluj, Maramureș, Sălaj, Satu-Mare Counties, acting in the field of manufacturing, services and commerce. Data collection was conducted via personal interviews done by operators. The questionnaire was accompanied by a letter explaining the project and assuring respondents of the confidentiality of their answers.

The constructs analyzed were obtained as follows:

- the overall strategic planning variable represents the mean of seven aggregate variables, each of these variables being associated with a strategic planning process component: mission, objectives, internal analysis, external analysis, strategic alternatives selection, implementation and control and evaluation; each aggregate variable was determined as a mean of several Likert scale variables (with anchors strongly agree-1 and strongly disagree-6);

- the overall performance variable represents the mean of four ordinal variables that in our opinion reflect the level of performance: objectives level of achievement, level of perceived performance in 2008 compared with 2007, number of employees dynamics, turnover dynamics.

The forty hypotheses formulated for a detailed analysis of the influences of strategic planning activities on performance were tested using Pearson Chi Square test.

The tested hypotheses are shown in the figure below:

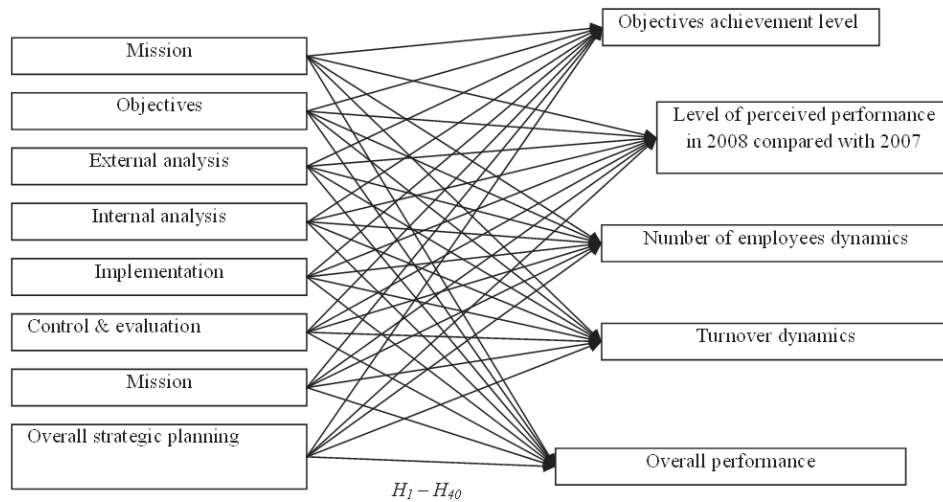


Fig. 1. A representation of the research hypotheses

4. Results

To establish the correlation between the overall strategic planning indicator and the overall performance indicator we calculated Pearson's correlation coefficient. The results indicate that, in general, a statistically significant relationship between two variables doesn't exist, the statistical significance level having a value over 0.05.

Table 1. Correlations between overall strategic planning and overall performance

	Overall strategic planning	Overall performance
Pearson Correlation	1.000	-.125
Overall strategic planning Sig. (2-tailed)		.077
N	200.000	200

Since the general relationship between the overall strategic planning indicator and the overall performance indicator was not confirmed, we searched for partial influences of planning on the four variables that reflect performance in our opinion. Thus, the results show that there is a positive correlation (with a confidence level of 99%) between strategic planning and the level of achievement of the established objectives. Also, a statistically significant relationship (with a confidence level of 99%) exists between strategic planning and business performance in 2008 compared to 2007.

Table 2. Correlations between overall strategic planning and performance variables

	Objectives achievement level	Level of perceived performance in 2008 compared with 2007	Number of employees dynamics	Turnover dynamics
Pearson Correlation	-.185**	-.191**	.029	-.095
Overall strategic planning Sig. (2-tailed)	.009	.008	.689	.190
N	200	195	193	192

As the results show, strategic planning is not correlated neither with the number of employees dynamics nor with turnover dynamics.

We also sought to identify the existence of a partial link between the seven components of the overall strategic planning indicator and the overall performance indicator. The results presented in the table below indicate that, except for “Implementation” component, there aren’t any statistically significant links between the overall performance indicator and each component of the overall strategic planning indicator, the statistical significance level having a value over 0.05.

Table 3. Correlations between overall performance and strategic planning components

	Mission	Objectives	External analysis	Internal analysis	Selection of strategic alternative	Implementation	Control & evaluation	
Overall performance	Pearson Correlation	-0.083	-0.117	-0.042	-0.066	-0.061	-.146*	-0.058
	Sig. (2-tailed)	0.242	0.099	0.554	0.35	0.388	0.039	0.416
	N	200	200	200	200	200	200	200

A positive correlation (with a confidence level of 95%) exists between the “Implementation” component and overall performance indicator, which confirms the importance of implementing strategic plans for improving the performance of SMEs.

We also aimed to identify the influences between each of the seven components of the overall strategic planning indicator (mission, objective, external analysis, internal analysis, strategic alternative selection, implementation and control-evaluation) and each of the four components of the overall performance indicator (number of employees dynamics, turnover dynamics, level of perceived performance in 2008 compared with 2007, objectives achievement level) as we considered each component of the two aggregate indicators (planning and performance) of equal importance in the construction of the aggregate indicator it is a part of. Of the 28 possible hypotheses were confirmed only the following:

- the level of knowledge and understanding of the objectives is positively correlated with a higher level of performance in 2008 compared to 2007 (with a confidence level of 95%);
- the “Implementation” component of the overall strategic planning indicator is positively correlated with a higher level of performance in 2008 compared to 2007 (with a confidence level of 95%);
- the “Evaluation and control” component of the overall strategic planning indicator is positively correlated with a higher level of performance in 2008 compared to 2007 (with a confidence level of 95%);
- the “External analysis” component of the overall strategic planning indicator is positively correlated with a higher level of objectives achievement (with a confidence level of 95%);
- the “Implementation” component of the overall strategic planning indicator is positively correlated with a higher level of objectives achievement (with a confidence level of 99%).

Table 4. Correlations between strategic planning components and performance variables

		Mission	Objectives	External analysis	Internal analysis	Selection of strategic alternative	Implementation	Control & evaluation
Number of employees dynamics	Pearson Correlation	0.008	-0.027	0.018	0.075	0.039	0.031	0.019
	Sig. (2-tailed)	0.91	0.712	0.806	0.301	0.59	0.667	0.795
	N	193	193	193	193	193	193	193
Turnover dynamics	Pearson Correlation	-0.05	-0.129	-0.002	-0.096	-0.078	-0.116	0.014
	Sig. (2-tailed)	0.491	0.074	0.983	0.187	0.285	0.11	0.849
	N	192	192	192	192	192	192	192
Level of perceived performance in 2008 compared with 2007	Pearson Correlation	-0.131	-.177*	-0.092	-0.073	-0.062	-.156*	-.148*
	Sig. (2-tailed)	0.069	0.013	0.199	0.312	0.386	0.029	0.039
	N	195	195	195	195	195	195	195
Objectives achievement level	Pearson Correlation	-0.099	-0.058	-.141*	-0.107	-0.124	-.220**	-0.113
	Sig. (2-tailed)	0.164	0.411	0.046	0.131	0.08	0.002	0.11
	N	200	200	200	200	200	200	200

These mean that for a high performance are very important employees’ knowledge and understanding of objectives, the implementation of selected strategies, the allocation of the needed resources to implement these strategies, a good internal communication, elaboration of budgets and the existence of procedures for the review-evaluation of strategies. For a higher degree of achievement of objectives, results emphasizes the importance of taking into account opportunities’ long-term implications, the existence of are procedures for assessing the opportunities, the knowledge of customer needs, the knowledge of the characteristics and intentions of competitors while for a high performance are important

the implementation of selected strategies, the allocation of proper resources to implement these strategies and good internal communication.

5. Conclusions

The results of our study don't support the positive relationship between strategic planning and organizational performance in the case of the participating Transylvanian SMEs. We can offer several reasons for this including the heterogeneity of the companies participating at our study in terms of dimension, main field of activity or number of years of activity. We can consider as a limitation of our study the absence of an investigation of the relation between strategic planning and performance considering these three factors. Another reason of this result may be the way we constructed the two aggregate indicators, one of the performance variables being the perceived level of performance in 2008 and 2007 that is dependent on the subjective evaluation of the respondent.

Even though a general influence couldn't been established, the partial influences support the importance of implementation of the strategic alternatives selected for the overall performance of small business, while the superior perceived performance of 2008 compared to 2007 is influenced by the knowledge and understanding of objectives, the implementation of plans and the periodic review of the plans. Implementation alongside external analysis positively influences the superior achievement of objectives.

Strategic planning positively influences the superior level of objectives' achievement and the superior performance of business in 2008 compared to 2007.

References

- [1] Al Ghamdi SM. The Use of Strategic Planning Tools and Techniques in Saudi Arabia: an Empirical Study. *International Journal of Management* 2005; 22 (3): 376-395.
- [2] Wilson, Ian, Strategic Planning for the Millennium: Resolving the Dilemma, *Long Range Planning* 1998, 31 (4), 507-513.
- [3] Hodgetts, R.M., Kuratko, D.F. *Effective Small Business Management*, Dryden, Fort Worth, TX, 2001
- [4] Al-Shammari HA, Hussein RT. Strategic Planning - Firm Performance Linkage: empirical investigation from an emergent market perspective. *Advances in Competitiveness Research* 2007; 14 (2): 67-90.
- [5] Schwenk CR, Shrader CB. Effects of Formal Strategic Planning on Financial Performance in Small Firms: A Meta-Analysis. *Entrepreneurship Theory and Practice* 1993;17 (3): 53-64.
- [6] Kraus S, Harms R, Schwarz EJ. Strategic Planning in Smaller Enterprises – new empirical findings. *Management Research News* 2006; 29 (6): 334-344.
- [7] French SJ, Kelly SJ, Harrison JL The Role of Strategic Planning in the Performance of Small, Professional Service Firms. *Journal of Management Development* 2004; 23 (8): 765-776.
- [8] Gable, M., Topol, M.T. Planning practices of small-scale retailers, *American Journal of Small Business* 1987; 12 (2), 19-32.
- [9] Gibson, B., Cassar, G. Longitudinal analysis of relationships between planning and performance in small firms, *Small Business Economics* 2005; 25 (3), 207-22.
- [10] Robinson, R.B. Measures of small firm effectiveness for strategic planning research, *Journal of Small Business Management* 1983; 21 (2), 22-29.
- [11] Sexton, D.K., Van Auken, P. A longitudinal study of small business strategic planning, *Journal of Small Business Management* 1985; 23 (1), 7-15.
- [12] Shrader, C.B., Mulford, C.L., Blackburn, V.L. Strategic and operational planning, uncertainty, and performance in small firms, *Journal of Small Business Management* 1989; 27 (4), 45-60.
- [13] Kohtamäki M, Kraus S, Kautonen T, Varamäki E. Strategy in Small Growth-Oriented Firms in Finland: a discourse analysis approach. *Entrepreneurship and Innovation* 2008; 9 (3): 1-10.