THE INFLUENCE OF STRATEGIC MANAGEMENT ON SUCCESSFUL SMALL & MEDIUM BUSINESSES IN THE SOUTH AFRICAN CONTEXT

by

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SYNOPSIS

The importance of small and medium businesses, (SME's), and specifically the important role that they perform in a country's national economy, have long been realized. In South Africa, the emphasis being placed on promoting small businesses in the government's GEAR strategy is an indication of how important small and medium businesses are regarded, even at national government level. Statistical evidence underlining the valuable contribution of SME's is frequently quoted in the literature.

The following statistics are an indication of the contribution of SME's to the South African economy:

- in 1991 there were approximately 800 000 formal businesses in South Africa of which approximately 700 000 or 85% could be classified as SME's;
- their estimated contribution to the GDP at that stage was in the region of 30%;
- in 1991 SME's employed more than 2.4 million people (2.7 million people in 1994) which represented about 17% of the economically active population of 14.3 million at that stage;
- "informal" Small Enterprises in 1991 was thought to be employing about 4.4 million additional people.

If the high rate of insolvency's amongst SME's, relative to larger businesses in the economy are to be taken as a guideline, it is clear that the financial risks involved in managing, owning and/or investing in a small to medium sized business are relatively high. With the above being a stated fact, the question was asked as to what can be done to make this important sector of the economy more effective.

A great deal of research was done in the past as to what actually causes SME's to go bankrupt. Problem factors ranging from a lack of funding, high interest rates, hostile labour relations and inflation to unsupportive governments were named in various studies as primary reasons for the failure of these businesses. Previous research has also found that the use of strategic management as a management tool in smaller businesses, such as SME's, is being neglected by the managers/owners of SME's.

What is the effect of this apparent lack of strategic planning, how absent is it really, are there any prescriptions for small business planning practices and how will all this influence the financial performance of SME's? These are just some of the broad issues that this research tried to shed more light on.

Strategic Management as a management tool has long been used, with great success, in large multi-national organisations to help them in managing uncertainties, exploiting opportunities and to better position these organisations for long-term growth and profitability. The main purpose, thus, of this study was to investigate to what extent SME's in South Africa make use of formal long-range planning or strategic management in bettering their chances of success and financial survival.

As background to the research, a comprehensive literature review was conducted. This included a discussion of research work previously done on the subject field of strategic management and its relationship with improved performance, specifically with regard to SME's.

A comprehensive discussion of the subject field of strategic management itself, with specific reference to the importance of the fact that strategic management is a dynamic process with well defined phases, was also done. This discussion of the subject field of strategic management specifically also focussed on the application of strategic management techniques and principles on SME's. A clear distinction was made between the application of strategic management in large corporations and the application thereof in SME's.

The research concentrated on SME's in the greater Cape Town area. A total of 300 questionnaires were mailed to small and medium businesses in the Cape Town area. The results of the completed questionnaires were then used in conjunction with the findings of other relevant research projects to substantiate or disprove the assumption that there would be a positive correlation between the application of strategic management techniques/principles and improved performance for SME's.

The investigation established that:

- A large section of the respondents, namely 83.3%, confirmed that they definitely have experienced a positive relationship between strategic management and increased performance. However, no concrete evidence could be found substantiating the assumption that strategic management orientated SME's will significantly outperform non-formal planning SME's.
- The managers and owners of SME's value strategic management as a management tool, but for various reasons, such as a lack of time, they cannot devote as much time as they would like towards managing strategically.
- No support could be found for the assumption that size would be an important factor distinguishing SME's that do make use of strategic management from those SME's that do not use strategic management.
- It was found that for SME's the process of strategic management itself was more important than the actual formal plans and documentation that are normally associated with strategic management in large organisations.

OPSOMMING

Die belangrikheid van klein en medium ondernemings, (KMO's) en spesifiek die belangrike rol wat hulle vervul in 'n land se nasionale ekonomie, word lank reeds besef. Die klem wat daar geplaas word op die bevordering van klein en medium ondernemings in die Regering se sogenaamde GEAR strategie, is 'n aanduiding van hoe belangrik klein en medium ondernemings in Suid-Afrika geag word, selfs op die nasionale vlak van regering. Statistiese inligting wat die waardevolle bydrae deur klein en medium ondernemings beklemtoon, word gereeld in die literatuur gemeld.

Die volgende statistiese gegewens gee 'n aanduiding van die bydrae deur KMO's tot die Suid-Afrikaanse ekonomie:

- gedurende 1991 was daar ongeveer 800 000 formele ondernemings in Suid-Afrika waarvan ongeveer 700 000, of 85%, geklassifiseer kon word as klein en medium ondernemings;
- hul beraamde bydrae tot die BBP op daardie stadium was nagenoeg 30%;
- in 1991 het klein en medium ondernemings meer as 2.4 miljoen mense in hulle diens gehad (2.7 miljoen in 1994) wat sowat 17% van die ekonomies aktiewe bevolking op daardie stadium verteenwoordig het;
- "informele" klein ondernemings het in 1991 na raming sowat 4.4 miljoen mense bykomend in diens gehad.

Indien die hoë koers van insolvensies van KMO's, relatief tot groter ondernemings in die ekonomie as 'n riglyn geneem word, is dit duidelik dat die finansiële risiko's betrokke in die bestuur, besit en/of investering in KMO's, relatief groot is. Met bovermelde as 'n gegewe feit, het die navorsing gefokus op wat gedoen kan word om dié belangrike sektor van die ekonomie meer effektief te maak.

'n Groot hoeveelheid navorsing is ook al in die verlede gedoen met betrekking tot wat werklik veroorsaak dat soveel klein en medium ondernemings insolvent raak. Probleem faktore wat wissel van 'n gebrek aan finansiering, hoë rente koerse, ongunstige arbeidsmarkte en inflasie tot onsimpatieke regerings is tydens vorige studies as primêre redes genoem vir die mislukking van dié besighede. Vorige navorsing het ook gevind dat die gebruik van strategiese bestuur as 'n bestuursinstrument in kleiner ondernemings, soos KMO's, verwaarloos word deur die bestuurders/eienaars van KMO's.

Wat is die effek van dié klaarblyklike gebrek aan strategiese bestuur, hoe afwesig is dit werklik, is daar enige voorskrifte vir beplannings-praktyke wat gevolg kan word in KMO's en hoe sal dit die finansiële prestasie van KMO's beïnvloed? Dit is sommige van die breë vraagstukke wat ondersoek is in 'n poging om meer lig daarop te werp.

Strategiese Bestuur, as 'n bestuurshulpmiddel, word lank reeds met groot sukses in groot multi-nasionale maatskappye aangewend om hulle instaat te stel om onsekerhede beter te bestuur, geleenthede te benut en om hulself beter te posisioneer vir langtermyn groei en winsgewendheid. Die hoofdoel van dié studie was derhalwe om ondersoek in te stel in

watter mate KMO's in Suid-Afrika gebruik maak van langtermyn beplanning of strategiese bestuur ten einde hul kanse op sukses en finansiële oorlewing te verbeter.

As agtergrond tot die navorsing, is 'n omvattende literatuurstudie gedoen. Dit het ingesluit 'n bespreking van navorsingswerk wat reeds gedoen is ten opsigte van die studieveld van strategiese bestuur asook laasgenoemde se verwantskap met verbeterde prestasie met spesifieke verwysing na KMO's.

'n Omvattende bespreking van die vakgebied van strategiese bestuur, met spesifieke verwysing daarna dat strategiese bestuur 'n dinamiese proses met duidelik gedefinieërde stappe is, is ook gedoen. Die bespreking van die vakgebied van strategiese bestuur het ook spesifiek gefokus op die toepassing van strategiese bestuurstegnieke en -beginsels op KMO's. 'n Duidelike onderskeid is gemaak tussen die toepassing van strategiese bestuur in groot maatskappye en die aanwending daarvan in KMO's.

Die navorsing het gekonsentreer op KMO's in die groter Kaapstad gebied. 'n Totaal van 300 vraelyste is gepos aan KMO's in dié gebied. Die resultate daarvan is toe gebruik in samehang met die bevindings van ander relevante navorsingsprojekte. Dit is gedoen ten einde die aanname dat daar 'n positiewe verbintenis tussen die toepassing van strategiese bestuurs beginsels/tegnieke en verbeterde prestasie in klein en medium ondernemings bestaan, te bewys of te weerlê.

Die navorsing het bevind dat:

- 'n Groot gedeelte van die respondente, naamlik 83.3%, bevestig het dat hulle beslis 'n positiewe verwantskap tussen strategiese bestuur en 'n verbetering in prestasie ervaar het. Daar kon egter geen konkrete bevestiging verkry word vir die aanname dat KMO's wat strategiese bestuur toepas uitsonderlik beter presteer as KMO's wat nie formele beplanning toepas nie.
- Die bestuurders en eienaars van KMO's erken strategiese bestuur as 'n waardevolle bestuurshulpmiddel, maar weens verskeie redes, soos byvoorbeeld 'n gebrek aan tyd, kan hulle nie soveel tyd daaraan afstaan om strategies te bestuur as wat hulle graag sou wou nie.
- Geen ondersteuning kon gevind word vir die aanname dat grootte 'n belangrike faktor sal wees in die onderskeid tussen KMO's wat wel gebruik maak van strategiese bestuur en dié KMO's wat nie daarvan gebruik maak nie.
- Dit is bevind dat KMO's groter waarde heg aan die proses van strategiese bestuur as die opstel van formele planne en dokumentasie wat normaalweg geassosieer word met strategiese bestuur in groot organisasies.

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CHAPTER 1

INTRODUCTION

The importance of small and medium businesses and specifically the important role that they perform in a country's national economy have long been realized. According to Hunger and Wheelen (1996) approximately 99% of the 17 million businesses in the United States employ fewer than 100 people. According to Vosloo (1991) 99.36% of businesses in the European Community (EC) employed less than a 100 people and 91.34% less than 10 people in 1991. Hunger and Wheelen (1996) state that Fortune 500 companies eliminated 3.5 million jobs during the 1980's, whereas small businesses created more than 20 million jobs. Further proof, according to Hunger and Wheelen (1996) of the very important role of small businesses in an economy is the fact that new small firms in the United States produce 24 times more innovation per research dollar than do the large Fortune 500 companies. (Hunger & Wheelen, 1996).

Although this kind of information regarding the South African situation is not readily available, the assumption can be made with relative certainty, that the same scenario is not prevalent in South Africa. According to an article that appeared in the May/June 1994 issue of the Small Business World, volume 2(3), Small and Medium Enterprises are still marginal to the South African economy. At that stage about 2.7 million people were involved in this sector and 85% of them earned less than R1000 per month.

There are, however, indications that SME's are beginning to play an ever increasingly important role in the South African economy. According to Vosloo (1991) the statistics concerning the Small and Medium Enterprises sector were as follow in 1991:

- in 1991 there were approximately 800 000 formal businesses in South Africa of which approximately 700 000 or 85% could be classified as Small and Medium Enterprises;
- their estimated contribution to the GDP at that stage was in the region of 30%;
- in 1991 Small and Medium Enterprises employed more than 2.4 million people (2.7 million people in 1994) which represented about 17% of the economically active population of 14.3 million at that stage;
- the "informal" Small Enterprises at that stage was thought to be employing about 4.4 million additional people.

The emphasis being placed on promoting small businesses in the government's GEAR strategy is also an indication of the fact that at all official levels there is an appreciation for the important role that small businesses have to play in the South African economy. This dissertation would not be complete without taking the ruling political party in South Africa, namely the African National Congress's stance towards Small and Medium Enterprises into consideration. (As will be seen later in the dissertation, politics and political opinion are very important factors to consider from a strategic management point of view.)

The following are, according to an article that appeared in the May/June 1994 issue of the Small Business World, volume 2(3), some of the reasons why the ANC believes Small and Medium Enterprises should be promoted vigorously.

- To generate employment. All over the world it is accepted that small businesses have enormous capacity to expand an economy's output and to create employment. Estimates say that the small business sector already contributes some 40% of South Africa's gross domestic product and that it has absorbed more unemployed people in recent years than the formal sector has.
- To direct state involvement in levelling the business field in South Africa. According to the ANC, consensus and co-operation need to be built between groups that currently seem to have very different interests. People need to realise the long-term benefit for themselves and for the whole economy. In this respect the ANC blames the previous government for damaging small business and in particular, black small businesses. It also states that it will use legislative powers to redress any imbalances.
- A market reservation act. According to the ANC, big businesses should include small businesses in their plans and give them a chance to compete in the markets. Joint ventures between black and white-owned businesses would benefit both as black businesses, according to the ANC, has more access to black communities.
- A Sub-Contracting Act. Would be put into place if necessary to protect disadvantaged Small and Medium Enterprises.
- Procurement policy. According to the ANC measures will be put in place to transform the policies of allocating government contracts. This new stance might be detrimental to certain businesses if not managed strategically and proactively.
- Competition Policy. According to the ANC, the structure of competition and controls which act against Small and Medium Enterprises and threaten their "efficiency development" need to be rectified. No indication was given as to what constitutes the said "structure of competition and controls".
- The Department of Trade and Industry. According to the ANC, this department has failed in the past to develop and support Small and Medium Enterprises. Specific attention should be given to this vehicle of state support to Small and Medium Enterprises in future.
- Protecting the rights of workers in Small and Medium Enterprises. In 1994, when this article was written, workers in the Small and Medium Enterprise sector of the economy did not enjoy as much protection, legal rights, pension/UIF benefits and negotiated wage structures as workers in for instance large corporations did. In the article the ANC states that it is its policy to ensure, whether through legislation or otherwise, that these issues be addressed.

Some of the above policy issues, which are actually intended to assist, might be seen by some to be detrimental to Small and Medium Enterprises as too much political intervention in this sector has in the past on the international scene proved to be counter productive. Some of the ANC's goals, on the other hand, will be welcomed by others.

The big question is, "Can small and medium businesses effectively play their part?" During the first half of 1996 a total of 1439 companies and closed corporations were liquidated in South Africa. The majority of these businesses were so called small businesses. This number increased to 1701 for the corresponding period in 1997 - an increase of 18.21% (Finansies & Tegniek 49/30).

Although the research as part of this dissertation, does not primarily focus on why small businesses fail, the above discussion clearly underlines the following two facts:

- Small & Medium Businesses clearly play an important role in the economy of any country.
- The financial risks involved in managing, owning and/or investing in a small to medium sized business are relatively high compared to that of, for instance large and publicly traded companies.

The question now arises as to what can be done? What can be done to make small and medium businesses more attractive as an investment, business opportunity, as employers, etc.? A great deal of research was done in the past as to what actually causes small and medium businesses to go bankrupt. A vast number of problems were cited over the years. Problem factors ranging from a lack of funding, high interest rates, hostile labour markets and inflation to unsupportive governments were named in various studies as primary reasons for the failure of these businesses. (Powell, 1992; Smit and Morgan, 1996; Shrader, Mulford and Blackburn, 1989).

The question, however, still remains as to what can be done to ensure long-term success and stability. In this respect the notion that the problem must be addressed from a multi-dimensional point of view, is supported. According to George L. Bernstein (1982) it can be said that as a general rule companies go broke because the people running them are "inexperienced or inept or both". Bernstein (1982) said: *"I believe there are two major ingredients for the survival and the success of any business, large and small, in good times and in bad. Those ingredients are strong management and strategic thinking"* (p. 32).

LITERATURE REVIEW

Very little material directly concerning the topic was found in literature of South African origin. For the South African perspective the author mainly relied on interviews and articles in newspapers and financial magazines.

According to the literature covered, the perception that strategic planning as a management tool is only meant for large multi national listed companies is fundamentally wrong. Since the beginning of the 1980's there has been a growing appreciation of the fact that a well-developed strategic plan can significantly enhance the performance of small and medium businesses. In a study by Robinson and Pearce (1983) it is suggested that the more sophisticated the planning process, the better the organizational performance of small businesses.

Their findings are supported by numerous other studies (Karger and Malik, 1975; Wood and La Forge, 1979; and others) that all suggest that there is a positive relationship between strategic planning and performance, also in small firms. The conclusion that Shrader, Mulford and Blackburn (1989) came to in their study of the importance of strategic planning in relation to performance in small firms, is that planning and performance were related in important and complex ways for small firms.

According to a study done by Robinson *et al* (1986) it was found that although they could not establish a direct link between strategic planning only and higher performance, the strongest performance advantage accrued to firms with a high emphasis on both operational and strategic planning. *"Firms with a high level of commitment to both types of planning significantly out-performed all remaining firms in the sample on all performance measures."* Robinson *et al* (1986:14).

Shrader, Mulford and Blackburn (1989) also found that there were positive correlations between strategic planning and performance and that because of the fact that such a small number of small and medium businesses actually engage in formal strategic planning, this might just be one of the major underlying issues responsible for the many small firm failures. They rightfully ask the question whether small firms have not perhaps been neglecting a potentially beneficial tool.

From practical experience and interviews, it is clear that many small businesses do not have the resources for planning that large firms do and as a consequence most choose to forego strategic planning all together. The owners/managers of small firms do not always have the knowledge, experience or professional assistance to do the necessary strategic planning and the impression is that they therefore stick to operational planning and operational planning only - if they plan at all!

What is the effect of this apparent lack of strategic planning, how absent is it really, are there any prescriptions for small business planning practices and how will all this influence the financial performance of small and medium businesses? These are some of the main and broad questions that the author intended to investigate as part of the dissertation in order to be able to contribute some knowledge and planning recommendations that would assist in improving the management of small and medium business.

MAIN RESEARCH PROBLEM

Is the practice of Strategic Management in Small & Medium Businesses a precondition for financial success?

The reason why firms succeed or fail is perhaps the central question in strategy. (Michael Porter, 1991:95)

Many Small and Medium Enterprises (SME's) go bankrupt each year in South Africa and many SME's make huge profits each year under the same conditions. (The acronym SME is an internationally recognised abbreviation for Small and Medium Enterprise and will be utilised throughout this dissertation.) Why do some succeed and why do some fail? Would the use of strategic management as a theoretical concept and management tool assist in increasing a business's chances of success? Is it valid to argue that the proper and effective incorporation of strategic management in a business's planning efforts will beyond any uncertainty ensure a better chance of success?

Will the use of strategic management in SME's effectively help in reducing the number of risks that SME's have to contend with, or will it at least put them in a better position to deal with all the uncertainties and problems so typical in today's business environment as and when they arise? These, and other questions/uncertainties were the focus of attention in this dissertation.

RESEARCH SUB-PROBLEMS

1. Is there a relationship between performance and long-range planning in Small & Medium Businesses?

   It is generally accepted that, for various reasons, SME's do not as part of their general planning processes also concentrate on strategic or formal long-range planning as is the case in large companies. Is it at all necessary for SME's to do so and will they benefit from it financially? Many studies in the United States indicate that SME's that do incorporate the typical strategic planning issues in their planning processes, do increase their relative growth and profitability (Miller & Toulouse, 1986).

2. Do senior managers/entrepreneurs in SME's regard strategic planning as important and do they possess the necessary planning skills?

   According to Moyer (1982) the lack of planning skills and then also a specific reluctance to employ outside expertise came to the fore in many studies in the United States. The general belief is that although costly, the involvement of outside expertise will positively substitute for the lack in strategic management skills by CEO's of small businesses. However, do managers and entrepreneurs view strategic planning as important enough to in many cases further burden an already stretched budget? Whether managers and entrepreneurs regard strategic planning as an important and urgent priority when allocating their professional time is a matter that is relevant and that needs to be investigated.

3. Is the development of a formal, written strategic plan a precondition for strategic management and planning in SME's?

   In analyzing this question it is important to remember that SME's are not smaller versions of big businesses, thus, their actual planning processes will also differ from the "generally accepted norms". As noted by Welsh and White (1981): *"We would argue, though, that the very size of small businesses creates a special condition - which can be referred to as resource poverty - that distinguishes them from their larger counterparts and requires some very different management approaches"* (p. 18).

RESEARCH HYPOTHESES

1. <u>SME's engaging in formal long-range planning will have a significantly higher performance record than their non-formal planning counterparts.</u>

   In a study by Robinson *et al* (1986) a comparison was made between the performance of firms that extensively applied four types of operational planning and which also engaged in strategic planning and other firms in their study that did not do so. It was found that firms engaging in high levels of both strategic and operational planning experienced a significantly higher change in return on sales, significantly higher sales per employee, and significantly higher levels in their manager's perceived performance of the firm than did the firms that emphasized only a few operational planning activities.

   In setting and researching the above hypothesis, it was intended that the results would hopefully provide answers to the most basic and underlying question in this study, namely whether SME's will benefit from engaging in strategic planning or will they simply waste time and money that can be utilized to much greater effect in other areas of the business.

2. <u>Top managers in SME's appreciate the fact that strategic planning is a valuable management tool, but contribute the general absence thereof in the management of small businesses to a lack of time and a lack of skills.</u>

   In a study by Robinson (1982) it was found that small firms that engaged in strategic planning with the assistance of outsiders achieved significant performance improvement in profit, sales growth, employment and productivity. The use of "outsiders" might also be an indication of the fact that managers in small firms realize the importance of strategic management, but that they, due to a lack of time and skills would rather contract outsiders to facilitate the process than to attempt it themselves.

3. There is a correlation between the degree of emphasis on formal long-range planning and the size of the businesses.

   In a study that was done by Sexton & Van Auken (1982) which researched the prevalence of strategic planning in small businesses, evidence was produced to suggest that larger small firms may be more willing to plan strategically. Other researchers have also explicitly warned that small firms should not be judged as "little big firms" and that although the formality of the strategic planning process may differ from small to large, the principles and results basically will remain the same.

   The above hypothesis was aimed at addressing this contentious matter and to supply an answer with the South African perspective in mind.

4. The process of strategic planning and not the plan itself, is the critical success factor in long-range planning by SME's.

   Although almost all of the formal literature/text books on the subject of strategic management indicate that there are certain basic models and principles that must be adhered to in order to develop a proper strategic plan the question can rightfully, from a small business perspective, be asked as to how formal must it really be. In their study about planning and performance in small organizations Robinson and Pearce (1983) found evidence in support of previous literature which suggests that formalization and agreement on goals and objectives are of secondary importance in small firm strategic planning.

   However, given the fact that planners, generally, outperform their non-planning counterparts it would be interesting to observe whether engaging in the process itself will already improve the firm's performance.

OBJECTIVES OF THIS STUDY

Strategic Management as a management tool has long been used, with great success, in large national and multi-national organizations to help them in managing uncertainties, exploiting opportunities and to better position these organizations for long-term growth and profitability. The main purpose of this study is to investigate to what extent small and medium businesses in South Africa make use of formal long-range planning or strategic management in bettering their chances of financial survival.

The significance of this study, therefore, will be to primarily determine whether the usage of strategic management will assist small and medium firms to better "weather the storms" of the every-day business environment in South Africa and secondly to also try and identify those strategic issues these firms mainly concentrate on if and when they do engage in strategic management.

DELIMITATIONS

The study concentrated on firms in the greater Cape Town area including the industrial areas of the Cape Flats, Montague Gardens and Atlantis, but excluding Paarl, Stellenbosch and Strand/Somerset-West. In defining small and medium businesses various definitions, including the definition as given in the Labour Relations Act, 1997 were evaluated. In all instances the number of full-time employees was the determining factor. In the European Union and the United States of America upper limits of between 300 and 500 employees are used. Saladin and Nelson (1984) for instance used an upper limit of 500 employees to define "small business" in their study on small business productivity.

Given the different profile and compilation of small businesses in South Africa it was decided that for the purposes of this study a SME would be defined as any firm employing between 10 and 300 full time employees. Setting parameters whereby SME's could be defined from a South African perspective, proved to be a difficult task. This was mainly due to the fact that the whole structure of SME's and the accuracy of official statistics concerning the subject in South Africa, is not nearly as substantive as in the United Kingdom, United States of America or the European Union. The author verified and validated the above "between 10 and 300 full time employees"- demarcation with other researchers, study groups and formal institutions active in the research field of SME's in South Africa (WITS Business School, COSAB, ABSA Small Business Unit).

The study concentrated on businesses operating in the retail, services and manufacturing industries. Due to their inherent nature and different management structure, the study excluded franchises.

CLARIFICATION OF TERMS AND CONCEPTS

Although there are many definitions of strategic management available, almost all of them incorporate the same underlying theme. This study throughout, used the definition as given by Hunger and Wheelen (1996): *"Strategic management is that set of managerial decisions and actions that determines the long-run performance of a corporation. It includes environmental scanning, strategy formulation, strategy implementation, and evaluation and control"* (p. 3).

SME's - Small and Medium Businesses

COSAB - Council of South African Banks

ABSA - ABSA Bank Limited

SBDC - Small Business Development Corporation

RESEARCH ASSUMPTIONS

After preliminary research and consultations with experts in the field of small and medium business this study, as a point of departure, assumed that:

1. in general, there is a lack of strategic planning in small and medium firms in South Africa;
2. and that the above assumption is one of the main reasons why small and medium firms are not successful.

OUTCOMES & CONTRIBUTIONS OF RESEARCH

As indicated in the introduction, small and medium businesses are very important role-players in the larger economic setup of any country. The author is of the opinion that in South Africa they are to play a vital role if the "political miracle" of a peaceful political transformation from the pre-1994 South Africa to the current democratic dispensation is to be carried forward into a financially stable, prosperous and growing new-South Africa.

This study therefore endeavored to contribute some knowledge to the already known facts that will assist managers and owners of small and medium firms to better gauge an uncertain future and therefore to better position their businesses.

CONTEXTUALISATION OF STUDY

This study involved the field of small business management and specifically the effect of strategic management (strategic management as an autonomous discipline) in the management of small and medium businesses.

RESEARCH DESIGN

The aim of the research was to gather, research and interpret as much data as possible from a quantitative point of view. It must, however, be borne in mind, given the inherent nature of strategic management/long-term planning, that the research would also be addressed in part from a qualitative perspective. For this reason the author engaged in the research and specifically the analyses of the results of the survey, as technically correct as possible, but also tried to remain as practical as possible. Straightforward analyses and comparisons of the data obtained with the survey would therefore be made with the use of Microsoft Excel as the use of advanced statistical calculations, comparisons and methods were not always possible and applicable.

RESEARCH METHODOLOGY

Sample frame: As indicated in the delimitation of research, the study concentrated on small and medium businesses in the greater Cape Town area. The Cape Chamber of Commerce and Industry's data base of small and medium businesses was used as a data base for sampling.

Sampling method: Due to the fact that there is no data base available that can with absolute accuracy, reflect the total population as described in the "Delimitation"-section, the author can only with relative accuracy assume that the total population for the geographical area as indicated, will be between 2000 and 2500. This assumption was verified with and recommended by the SBDC in Cape Town as well as the Cape Chamber of Commerce and Industry. Given this population, a sample size of 300 was sufficient to secure a 95% level of certainty with a 5% error margin.

In various studies on this subject conducted in the United States, relatively good response rates were experienced due to the fact that questionnaires were kept short and concise and because of the subject field, questionnaires were mainly completed by the CEO/manager who had an interest in and knowledge of the subject matter (Shrader, Mulford and Blackburn, 1989).

Data collection techniques: Due to respondent convenience and financial constraints the Mail Survey Method was used. It was found that this method also worked very well in similar studies in the US, mainly due to the fact that CEO's/managers who faced already busy schedules could complete a mail survey at a time more convenient to them - interviewing the CEO/manager during an already busy working day proved to be counter productive (Shrader, Mulford and Blackburn, 1989).

Data collection instruments: A detail-structured research questionnaire was used to collect the data. Given the qualitative nature of strategic management and due to the fact that only senior management in most cases can answer on the topic, it was found in previous studies that a well constructed questionnaire produced the best results (Robinson and Pearce, 1984). A copy of the questionaire is attached as per Annexure 1.

The results obtained from the completed questionaires were used in conjunction with the findings of other relevant research projects to substantiate or disprove the aspects raised in the research hypotheses's as stated on page 5.

OUTLINE : SECTIONS & CHAPTERS

The dissertation is divided into eight chapters, each dealing with a specific dimension of the total research project. The proposed outline per chapter is as follow:

1. Chapter 1. An introduction, outlining the basic points of departure and goals of the research.

2. Chapter 2. This chapter provides a more in-depth discussion of strategic management according to the literature and the implications thereof on small/medium firms.

3. Chapters 3-6. These chapters primarily deal with the research sub-problems, hypotheses, methodology utilised and findings and an analysis and a discussion thereof.

4. Chapter 7. This chapter concentrates on possible trends and recommendations.

5. Chapter 8. Conclusion.

6. Annexures

CHAPTER 2

STRATEGIC MANAGEMENT : THE LITERATURE

THE FIELD OF STUDY OF STRATEGIC MANAGEMENT

Strategy is derived from the Greek word "strategos" which means generalship. It is used in the military sense as the art or plan that the general uses to overpower the enemy taking his power and situation into consideration. In management, strategy is used to decide upon a suitable plan or method that will achieve predetermined objectives notwithstanding changes. Strategic management encompasses what is generally known as long-range planning and strategy.

Kroon (1993) states that strategic management is the continuous long-term planning process of top and middle management to continuously achieve the enterprise's goals by developing and implementing a suitable plan amidst environmental change. According to Kroon (1993) the process referred to above, consists of two parts, namely strategic planning or strategy formulation and strategy implementation.

Strategic planning, according to Kroon (1993), makes it possible to lead the enterprise continuously, considering the enterprise's situation (strengths and weaknesses) and the external environment (opportunities and threats), and to exploit the market with the greatest possibilities for the effective presentation and the profitable sale of a product or service. Kroon (1993) also states that strategic management concentrates on effectiveness while tactical management concentrates on efficiency.

According to Hunger and Wheelen (1996), strategic management is that set of managerial decisions and actions that determines the long-run performance of an organization or business. This, almost automatically, includes a process involving environmental scanning, the formulation of strategies (strategic or long-range planning), the implementation of strategies selected from those that were formulated and finally, evaluation and control.

The study of strategic management therefore emphasizes monitoring and evaluating environmental opportunities and threats (external factors) in light of a business or organization's own strengths and weaknesses (internal factors) (Hunger and Wheelen, 1996). It is important to note that it is a holistic process including planning, whether strategic- or business planning. In a report that was prepared by the American Assembly of Collegiate Schools of Business and the European Foundation for Management Development, Robertson (1982) states that: *"Living with uncertainty is likely to be management's biggest challenge"* (p.5). It is in response to this ever increasing environmental turbulence that strategic management has evolved into an independent field of study.

Strategic management looks at the managing processes of a business as a whole and attempts to explain why some firms develop, survive and thrive and why others stagnate and go under. According to Mintzberg (1990) it is important to note that the distinguishing characteristic of strategic management is the emphasis on strategic decision making. The difference between strategic decision making and other decisions within the organization being that strategic decisions deal with the long-run future of the entire organization and according to Hunger and Wheelen (1996), have three characteristics.

- Rare: strategic decisions are unusual and typically have no precedent to follow.
- Consequential: strategic decisions commit substantial resources and demand a great deal of commitment.
- Directive: strategic decisions set precedents for lesser decisions and future actions throughout the organization.

Another very important aspect that came to the fore in many research projects that were conducted in the past on the topic of strategic management is that managers and entrepreneurs must rise above their training and experience in the traditional and functional areas of a business such as accounting, marketing, production, or finance. They must, if they wish to survive in an ever changing and more competitive world, grasp the overall picture. Hunger and Wheelen (1996) state that there are three very important strategic questions that need to be asked with the aforesaid in mind.

- Where is the organization now?
- If no changes are made, where will the organization be in one year, two years, five years, ten years? Are the answers acceptable?
- If the answers are not acceptable, what specific actions should management undertake?

EVOLUTION OF STRATEGIC MANAGEMENT

As competition become more fierce, methods of production become more advanced and effective and markets become more informed and sensitive towards their needs. Managers, therefore, have to take strategic management more seriously. Research by Lamb (1983) suggests that the increasing risk of error, costly mistakes and even bankruptcy caused professional managers to shift their emphases towards managing more strategically in order to keep their companies competitive in an increasingly volatile and demanding market environment.

Just as there are certain steps or criteria that an organization and management processes must comply with or practice before it can qualify for recognition as a World Class Organization so too does strategic management require certain phases of development. Many writers and academics have attempted to formulate through research certain steps or sequential phases that must be prevalent before the phase is reached where it can be said that the organization is being managed strategically.

Research in this respect that was done by Gluck, Kaufman and Walleck (1982) proposes that, as top managers attempt to deal with their ever changing worlds, strategic management within a firm evolves through four sequential phases.

> Phase 1. Basic financial planning: seeking better operational control through the meeting of budgets.
> Phase 2. Forecast-based planning: seeking more effective planning for growth by trying to predict the future beyond the next year.
> Phase 3. Externally orientated planning (strategic planning): seeking increased responsiveness to markets and competition by trying to think strategically.
> Phase 4. Strategic management: seeking to develop all resources in order to develop a competitive advantage and to help create a successful future.

It is evident that in Phase 4 the evolution of strategic management includes a consideration of strategy implementation and evaluation and control, in addition to the emphasis in Phase 3 on strategic planning only. It is important to note this difference between strategic planning and strategic management as it very prominently emerged in the research and interviews that were conducted for the purposes of this study, that many managers of SME's think that they are managing strategically while for all practical purposes, they have only done some strategic planning.

Another important factor to bear in mind is that until recently strategic management was regarded as a concept or management tool/approach applicable to large companies and corporations only. The chairman of the board of Unilever, one of the largest companies in the United States of America, once stated: *"The largest companies in the world all have to take strategic management seriously"* (Maljers, 1990:63). This perception that only the largest companies can benefit from strategic management, however, has changed to a large extent over the last few years.

It has changed to such an extent that there are some researchers and analysts that believe that no SME can afford to go into the market place without a strategic management approach and a proper strategic plan. Extensive research with respect to strategic management and its possible positive effect on the performance of SME's was done in recent years and the general belief is that a SME that does not apply at least the basic principles of strategic management, will not survive. Pascarella (1984) stated that all managers (including owners of SME's) must be what is regarded as "strategic thinkers", if their businesses are to successfully engage the challenges of the next millennium.

THE VALUE OF STRATEGIC MANAGEMENT AND THE STRATEGIC MANAGEMENT PROCESS

According to Greene et al. (1985) effecting strategic planning is well worthwhile because it leads to faster and better adaptation to changing circumstances and the more successful functioning of the enterprise.

Faster and better adaptation to the changing environment:

The complexity and size of businesses and the rate of change in the external environment has, since the beginning of the 1970's, resulted in a proactive management approach becoming indispensable to the leadership of the business. Some of the main factors according to Greene et al. (1985) that must be adapted to, are:

- Economic Change. The business cycle in the USA, Europe and Japan influences the South African economic environment. During a boom the demand for goods and services increases and more people are employed. During recessions retrenchment occurs. Other economic factors that have to be adapted to are the gold price, exchange rates and interest rates. The importance of interest rates as a strategic factor that needs to be managed, emerged very prominently in the South African context when the prime lending rate of major banks escalated from 16% in June 1998 to an all time high of 25.5% in September 1998!
- Technological Development. As a result of the doubling of scientific knowledge every ten years, according to Greene et al. (1985), it is obvious that adaptations are necessary in the development of new technology, such as the computer, electronic communication, television and optical fiber.
- Social Change. The composition, age, sex, needs, preferences, eating habits, clothing, buying patterns, literacy and remuneration structure of the population changes with time. Consequently the enterprise must keep pace with these changes in order to survive and grow.

Improved functioning:

According to Kroon (1993) businesses that only react to changes or whose management acts reactively, perform poorer than enterprises with proactive management which anticipate changes and follow a particular strategy. Kroon (1993) states that businesses that do formal strategic planning, perform considerably better than similar enterprises that do not do so. The advantage, according to Kroon (1993) of strategic planning is particularly noticeable in the results of enterprises that function in a complex, rapidly changing environment.

The Strategic Management process:

No specific approach to strategic management, according to Kroon (1993), will be ideal for all enterprises in all circumstances. Similar approaches can at certain stages possibly produce the best results in a specific situation. The steps in the model for strategic management of a new enterprise begin with the identification of the mission. In the case of an existing business the present performance and strategy is an important input and point of departure for the annual strategic planning session. Kroon (1993) states that this will prevent a planning gap between strategic planning and actual performance.

The ideal is to develop a new strategy, integrating the existing one and to have implementation done accordingly. Kroon (1993) states that strategic planning can thus be seen as "an annual course adjustment" to ensure that the enterprise is proceeding in the right direction.

The enterprise mission can be considered as the main point of departure for the strategic management process in an enterprise. Pearce and Robinson (1985) state that the mission indicates the reason for the enterprise's existence in terms of the nature and extent of the present and future business activities. It should according to Pearce and Robinson (1985) give a definition of the following aspects:

- Product range or services. This gives an indication of the product lines or services being offered by the enterprise. It can, for example, be the supply of means of transport for passengers and goods as well as the provision of tractors and agricultural implements.
- Market. This describes the business's primary market and market segments. It indicates whether the business will concentrate on the international, national or geographic market.
- Management philosophy. This spells out management's values and priorities according to which business as a whole is done. The application of management ethics is involved here, for example, the maintenance of high ethical standards at all times, the fair and humane treatment of all people, the principle that initiative and hard work lead to success and that the client must always be put first.
- Technology. The most important technology used in production and administration can be indicated, for example the execution of the activities by means of a computerised assembly line and the management information system.
- Enterprise image. Since existing and potential clients associate certain characteristics with a specific enterprise, it should receive attention in the mission, for example the delivery of safe, high quality, reasonably priced or expensive products and the running of the enterprise on a professional basis. The above must be credible in order to contribute to a positive image.

There are also a large variety of strategies at the disposal of an enterprise, specifically in the instance of large enterprises and corporations. The most important of these "textbook" strategic alternatives according to Byars (1987) are:

- Maintenance strategy. According to the maintenance or stable growth strategy, top management is satisfied with the performance in the past and consequently continues in the same direction.
- Growth strategy. This strategy is based on the extension of the activities through the development or procurement of new products, new markets and new processes.
- Retrenchment strategy. This strategy is aimed at the improvement of the enterprise's financial performance during poor economic circumstances. It comprises the reduction of costs and assets, the withdrawal from certain business areas or the sale of the enterprise assets and the suspension of business areas in exceptional cases.
- Combination strategy. Some of the above strategies are followed for the different product lines. This is mainly used where an enterprise serves different markets.

Enterprise goals, social responsibility and broad policy:

Kroon (1993) states that enterprise goals are the enterprise's long-term expectancies. These goals are necessary in each area where success or results effect the survival and growth of the business, for instance enterprise functions, profits, dividends, productivity, product range and social responsibility.

Top management has to define the enterprise's social responsibility, taking the expectations of the external interest groups (suppliers, clients, competitors, the government and the public) and the internal interest groups (employees and shareholders) into account.

Kroon (1993) states that the programs that the enterprise are to run regarding social responsibility should be clearly specified. Areas that should be addressed are safe products, protection of the ecological environment and the prevention of pollution, donations to educational and charity institutions, employees' safety and health, contributions to the quality of life and community development.

Enterprise policy, according to Kroon (1993) binds the whole enterprise and is laid down in conjunction with the goals and the organisation structure. It determines the limits within which a decision must be made in order to be in agreement with and to contribute to the achievement of the enterprise goals. Enterprise policy affects the broader problems like financing, the establishment and the general nature and the extent of the business's activities. Kroon (1993) states that the functional policy is formulated from the enterprise policy during a series of discussions between top management and the functional managers.

Researchers have conducted many studies to determine whether organizations that engage in strategic management outperform those that do not (Ansoff, Brandenburg and Radosevich, 1971; Burt, 1978; Herald, 1972; Karger and Malik, 1975; Rue, 1973; Thune and Norburn, 1970; Wood and LaForge, 1979). Powell (1992) observed that, in general, the research revealed that strategic management leads to improved performance far more often than it results in no change or in even poorer performance.

In a study by Armstrong (1991) it was found that out of a total of 28 studies of manufacturing firms, 20 studies revealed better performance with formal planning, 5 studies revealed no difference and in 3 studies planning actually proved to be detrimental to performance.

It is also important to note that strategic management need not always be a formal process to be effective. SME's in particular, may plan informally and irregularly. According to Bryson and Bromiley (1993) the real value of strategic management for SME's may be more in the future orientation of the planning process itself than in any resulting written strategic plan. Some studies have even found that too formal a process may actually hurt performance (Robinson and Pearce, 1983). A heavy emphasis on structured, formal, written plans may be dysfunctional to some SME's because it reduces the flexibility that is crucial to their success. Specifically with regard to SME's, the observation by Hunger and Wheelen (1996) that the process of strategic planning and not the plan itself, is probably the key to improving business performance, is very relevant and applicable.

It was, however, found in a study by Hickson et al. (1986) that in large multidivisional organizations, the planning of strategy and therefore strategic management can become a very complex affair and formality in this case would normally be a necessity. A formalized, more sophisticated system will in the case of large organizations, ensure that strategic planning leads to successful performance.

Due to the fact that a smaller number of people are generally involved in a strategic planning process in a SME it can be assumed that the process need not be so formal to be successful. There is however, general consensus that the use and knowledge of strategic planning and the selection of alternative courses of action based on an assessment of important external and internal factors are essential parts of a manager's function (Hunger and Wheelen, 1996).

In a study by Walsh (1990) it was found that 89% of small firms with a strategic plan indicated that they benefited from the plan. Reasons for its effectiveness were as follows:

- the plan had specific goals - 64%
- the plan gave staff a united vision - 25%
- the plan established a time frame for achievements - 11%

Reasons given for an ineffective plan were as follows:

- strategic objectives too vague - 43%
- the plan lacked a time frame - 29%
- no clearly identified action plans and goals - 17%
- a lack of input by all relevant staff - 11%

With the above in mind a good case can therefore be argued in favour of the assumption that the application of strategic management in a business will in all probability be to the benefit of that organization. The fact that a business is small or that the business might not have all the necessary resources to develop a very formal and written strategic plan would also not disqualify the business as a candidate for the successful application of strategic management principles.

MANAGING CHANGE AND TRANSFORMATION

Changing circumstances are part of everyday life for any business. These changing circumstances can either be internal or external. Many management experts in fact believe that the difference between a highly successful business and an average business is the successful business' ability to recognize and manage change. The tittle and contents of Tom Peters' (1988) book, "Thriving on Chaos" is typical of this sentiment. From a strategic point of view it is important to take cognizance of the fact that organizations with (or without) strategic plans must from time to time change strategies.

Peters (1988) states that flexibility must be the watchword and that flexibility is made possible by strategic capabilities and the ability to execute strategies quickly. Peters (1988) emphasizes that an organization's ability to manage change would in future determine the success of that business. Peters (1988) states that: "*... tomorrow's successful business will be a collection of skills and capabilities ever ready to pounce on brief market anomalies. Any useful strategic plan, or planning process, must focus upon the development and honing of these skills which translates into readiness to seek and exploit opportunities*" (p. 510).

According to Peters (1988), strategy should focus primarily on such things as the time and energy to be devoted to creating revolutionary quality improvement or getting linked up fast with almost all of the business's customers. Peters (1988) believes that this strategic planning process should be a "bottom-up" approach and that the content and format of the plan and the planning process should be modified substantially every year. This is because most plans and planning processes, according to Peters (1988), become bureaucratic, whereas the sole purpose is to be thought-provoking in order to invoke new thinking that will assist in managing the changes facing the organization.

Hunger and Wheelen (1996) relate this process of changing circumstances and necessary adaptations to a business' strategies to an understanding of the human tendency to continue on a particular course of action until something goes wrong or a person is forced to question his or her actions. Grinzer and McKiernan (1990), who researched the issue of strategic change, identified certain possible triggering events that normally act as stimuli for a company to change its strategies. These "triggering events" are:

- A new Chief Executive Officer.

A new CEO can, by asking a few embarrassing questions, cut through the veil of complacency and can actually force people to question the very reason for the business' existence and this in turn can be a frightening and threatening situation for many if not all long-term employees.

- Intervention by an external institution such as a bank.

A bank's refusal to make a new loan or a decision to call for the immediate payment of an existing overdraft will have a serious impact on a business. The ensuing panic and need to arrange new financing may trigger the initiation of a complete strategic review of the company. The threat of a takeover will have the same result.

- A threat of a change in ownership, such as a takeover.

- Identification by management of a performance gap.

A performance gap is another very powerful trigger of strategic change in an organization. In its most basic form it typically manifests in a difference between planned results and actual results, such as when sales and profits stagnate while those of competitors rise.

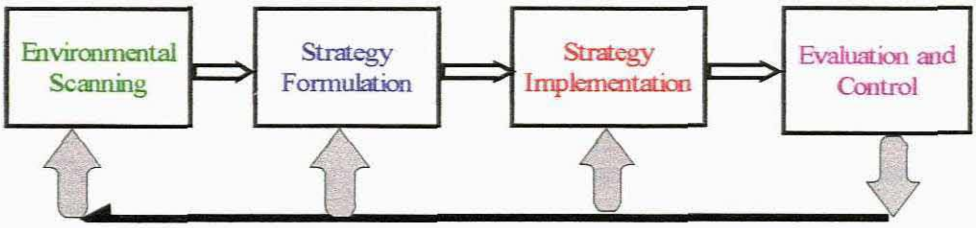
If management, according to Grinzer and McKiernan (1990), now chooses to confront the problem, the formulation process and thus change, begins in all earnest. In addition Mintzberg (1976) discovered that strategy formulation typically is not a regular process: *"It is most often an irregular, discontinuous process, proceeding in fits and starts. There are periods of stability in strategy development, but also there are periods of flux, of groping, of piecemeal change, and of global change"* (p. 56).

STRATEGIC MANAGEMENT MODEL

Numerous models reflecting the strategic planning process have been developed in the literature. According to Schutte (1993) most of the models center around the use of specific strategic management techniques and thus tend to reflect the application of the particular technique employed. The value of a model according to Schutte (1993) lies in the fact that it attempts to illustrate the process and dynamics of the strategic management process. Hunger and Wheelen (1996) also state that a model of strategic management is a normative model and it therefore attempts to indicate how strategic management should be done rather than describe what is actually done in many organizations. The strategic management model as presented by Hunger and Wheelen (1996) is attached as per Annexure 2.

According to Hunger and Wheelen (1996) the process of strategic management involves four basic elements. Figure 2.1 shows how these four elements interact.

Figure 2.1. The Strategic Management Process.



The strategic management process thus includes activities that range from environmental scanning to performance evaluation. Management scans both the external environment for opportunities and threats and the internal environment for strengths and weaknesses. According to Hunger and Wheelen (1996) the factors that are the most important to the organization's future are referred to as strategic factors and are summarized with the acronym S.W.O.T., standing for Strengths, Weaknesses, Opportunities and Threats.

As can be seen from the above model, the process of strategic management is a continuous process. The first step is a statement of mission, which leads to a determination of corporate objectives, strategies and policies. These strategies and policies are then implemented through programs, budgets and procedures. Finally, performance evaluation and feedback ensure adequate control of organizational activities.

Environmental Scanning and Industry Analysis:

Environmental scanning, as can be seen from the model, consists of an External and an Internal analysis of variables outside and within the organization. The external environment consists of those variables that are outside the organization. According to Hunger and Wheelen (1996) these variables are typically not within the control of senior management and in total they represent the Opportunities and Threats that the organization must deal with on the strength of the organization's established internal Strengths and Weaknesses.

Hunger and Wheelen (1996) state that to be successful over time, an organisation must be in tune with its external environment. There must be a strategic fit between what the environment wants and what the business has to offer, as well as between what the business needs and what the environment can provide. According to Hunger and Wheelen (1996) current predictions are that the environment for all organisations will become even more uncertain in the coming years, due to factors such as better information technology and the effect that it will have or already has on competition between businesses.

According to Duncan (1972) environmental uncertainty refers to the combination of the degree of complexity and the degree of change in an organisation's external environment. This environmental uncertainty is a threat to strategic managers, because it hampers their ability to develop long-range plans and to make strategic decisions to keep the business in equilibrium with its external environment. Managers who are willing to actively embrace the increasing uncertainty facing their organisations in order to anticipate future developments engage in strategic management.

Hunger and Wheelen (1996) state that environmental scanning is the monitoring, evaluating and disseminating of information from the external environment to the key people within the business. According to Hunger and Wheelen (1996) it is a management tool for avoiding strategic surprise and ensuring the business's long-term health. Research by Thomas et al. (1993) has identified a positive relationship between environmental scanning and profits.

According to Kroon (1993) the analysis of the external environment consists of an analysis of the international, macro-management and the market or task environment. Changes and trends are considered in the international, economic, social, technological, physical, political, institutional and the market or task environment. This is done by means of environmental scanning, forecasting and the development of scenarios in order to identify opportunities, threats and key success factors. Kroon (1993) defines these opportunities, threats and key success factors as follows:

- An *opportunity* is a favorable or unexpected situation in one or more of the management environments that can be used by proactive management to the advantage of the enterprise, for example to market a specific product or service for which there are few substitutes and a great demand.
- A *threat* is an unfavorable situation in one or more of the management environments that, without proactive management, could lead to damage or even failure of the enterprise, for example restricting legislation or a shortage of a certain important raw material or product.
- *Key success factors* are those aspects an enterprise must execute well in order to compete and succeed in a particular branch of industry. Key success factors can, for example, include good market segmentation, quality and trade mark of products, price competitiveness, costs of raw materials, financial position and limitations to entering a particular branch of industry.

Opportunities, according to Schutte (1993), should be exploited by a proactive management approach and counter reaction developed to the threats to reduce its influence or to eliminate it. Where possible the threats must be changed into opportunities. The threat of pollution can, for example, be used as an opportunity for the manufacture of pollution-prevention equipment.

Managers must monitor both the societal and task environments to detect strategic factors that are likely to have a strong impact on business success or failure. Hunger and Wheelen (1996) separate the external environment into two parts, namely a task environment and a societal environment.

- The *task environment* includes those elements or groups that directly affect and are affected by an organization's business activities. Economists would normally refer to an organizations task environment as its industry. The task environment would normally include governments, local communities, suppliers, competitors, customers, creditors, employee/labor unions, special interest groups and trade associations.
- The *societal environment* includes the more general forces, those forces that can apply to businesses in different industries and that do not directly touch on the short-run activities of the organisation but can and often do, influence its long-run decisions.

Hunger and Wheelen (1996) have identified the following four societal forces:

- *Economic forces* that regulate the exchange of materials, money, energy and information.
- *Technological forces* that generate problem-solving inventions.
- *Political-legal forces* that allocate power and provide constraining and protecting laws and regulations.
- *Socio-cultural forces* that regulate the values, norms and customs of society.

The internal environment consist of variables that are within the business itself and they normally form the context in which work is done. Strategic managers must also look within the organisation to identify internal strategic factors, which are the strengths and weaknesses that will determine whether the firm will be able to take advantage of opportunities while avoiding threats. In evaluating these internal strategic factors, the organisation will need to compare measures of these variables with measures of (1) the company's past performance, (2) the company's key competitors and (3) the industry as a whole.

Hunger and Wheelen (1996) state that to the extent that a variable (such as a business's financial situation) is significantly different from the firms past, its key competitors or the industry average, that variable is likely to be a strategic factor and should be considered in strategic decisions. Smit and Morgan (1996) state that for entrepreneurs to be competitive they must identify their competitive edge and analyse their competition and then develop strategies that will allow them to gain a competitive advantage. According to Smit and Morgan (1996) the competitive edge is that attribute which makes the business unique and distinguishes it from other businesses.

Hunger and Wheelen (1996) identified the following three aspects of an organization's internal environment, namely structure, culture and resources.

- Structure is the way in which the business is organized in terms of communication, authority and workflow. The span of control or chain of command would for instance be considered as structural forces. An understanding of how the organisation is structured is useful in strategy formulation. If the structure is compatible with a proposed change in strategy, it is a corporate strength. However, if the structure is not compatible with either the present or proposed strategy, it is a definite corporate weakness and will keep the strategy from being implemented properly.

- Culture refers to the pattern of beliefs, expectations and values prevalent in that organization. Hunger and Wheelen (1996) state that it is the collection of beliefs, expectations and values learned and shared by a corporation's members and transmitted from one generation of employees to the next. Managers' understanding of a corporation's (or any business's) culture is imperative if the firm is to be managed strategically. Lorsch (1985) emphasizes the fact that an organisation's culture can produce a "strategic myopia", in which strategic managers fail to perceive the significance of changing external conditions because they are partially blinded by strongly held common beliefs. According to Smircich (1983) culture fulfills several important functions in an organisation, namely:
    - Culture conveys a sense of identity for the employees.
    - Culture helps generate employees' commitment to something greater than themselves.
    - Culture adds to the stability of the organisation as a social system.
    - Culture serves as a frame of reference which enables employees to make sense out of organisational activities and to use as a guide for appropriate behavior.
- Resources are those assets that constitute the raw materials for the organization's production of goods and services. According to Schutte (1993) resources can include people skills, managerial talents, financial assets, plant facilities, etc.

Kroon (1993) states that the internal analysis of the enterprise is done by means of an enterprise audit. This should be an objective investigation of the enterprise functions (general, purchasing, personnel, production, marketing, administration, financial and public relations), the resources (labour, capital, raw materials, machinery) and specific skills (particular technology, good management) which the business has or lacks. This is done with the aim of identifying strengths and weaknesses as well as the enterprise's competitive advantage.

Kroon (1993) defines strengths and weaknesses as follows:

- A strength is a specific skill which the enterprise has that can be used to exploit an opportunity or to reduce or overcome a threat. Where the enterprise's strength is also one of the key success factors in the branch of industry, it can be seen as a competitive advantage of the enterprise, for example skilled personnel or sophisticated technology which the enterprise has at its disposal.
- A weakness is the lack of a specific skill at the enterprise which leads to, for example, a weak financial position or incomplete purchasing procedures and stock control. Definite attempts should be made to improve or eliminate weaknesses.

Strategy Formulation:

The next step in the strategic management process is strategy formulation (often referred to as strategic planning or long-range planning). According to Hunger and Wheelen (1996) strategy formulation entails the development of long-range plans for the effective management of environmental opportunities and threats, in light of the business's strengths and weaknesses. Although there are different theoretical points of view relating to the aspect of strategy formulation, Hunger and Wheelen (1996) supports the notion that strategy formulation entails the following:

- defining the corporate mission;
- specifying achievable objectives;
- developing strategies;
- setting policy guidelines.

Hunger and Wheelen (1996) states that the basis of strategy formulation is a SWOT analysis. If done well, it should lead to the identification of a corporation's distinctive competence, in other words, the particular skills and resources a firm possesses and the superior way in which it uses them. According to Leonard-Barton (1992) distinctive competence sometimes is considered a collection of core capabilities (capabilities that differentiate a company strategically) and an appropriate use of a firm's distinctive competence (core capabilities) should give it a sustainable competitive advantage.

Instead of developing a standard matrix with each quadrant respectively containing the relevant strengths, weaknesses, opportunities and threats, Hunger and Wheelen (1996) have developed a formal and more scientific approach. According to Hunger and Wheelen (1996) a business's strategic factors can be summarized by combining the External Strategic Factors or EFAS (opportunities and threats) with the Internal Strategic Factors or IFAS (strengths and weaknesses) into a Strategic Factors Analysis Summary or SFAS. This can be done by making use of the diagrams as shown in Figure 2.2.

Figure 2.2

INTERNAL STRATEGIC FACTOR ANALYSIS SUMMARY (IFAS)

Internal Strategic Factors	Weight	Rating	Weighted Score	Comments
Strengths: Weaknesses:				
TOTAL:				

<u>**EXTERNAL STRATEGIC FACTOR ANALYSIS SUMMARY (EFAS)**</u>

External Strategic Factors	Weight	Rating	Weighted Score	Comments
Opportunities: Threats:				
TOTAL:				

Hunger and Wheelen (1996) propose that the strategic manager identifies the five most important strengths, weaknesses, opportunities and threats. This will give him twenty strategic factors to work with. Twenty strategic factors, however, are too many for management to use effectively in strategy formulation, and it is required that the strategic manager condense these twenty factors to less than ten factors by making use of a Strategic Factors Analysis Summary. The Strategic Factors Analysis Summary can be drawn up in the same way as the IFAS and EFAS in Figure 2.2 above.

The resulting Strategic Factors Analysis Summary summarizes the firm's external and internal strategic factors on one document. The Strategic Factors Analysis Summary contains only the most important factors and provides the basis for strategy formulation.

There are also various other techniques and methods that can be applied and utilized for the purpose of strategy formulation, each having its own specific strengths and weaknesses. The most important ones are:

- Four-Cell Boston Consulting Group Growth-Share Matrix
- Nine-Cell General Electric Business Screen
- Fifteen-Cell Product/Market Evolution Matrix by C.W. Hofer

Strategy Implementation:

Hunger and Wheelen (1996) describe strategy implementation as the process by which management translates strategies and policies into action through the development of programs, budgets and procedures. It is regarded as the most important phase in the strategic management process. Strategy implementation is sometimes also referred to as operational planning and it involves the day-to-day decisions in resource allocation. The strategic management model as developed by Hunger and Wheelen (1996) clearly illustrates how and where strategy implementation fits into the overall strategic management process.

Strategy implementation might involve changes within the overall culture, structure and/or management system of the entire organization. According to Schutte (1993) this part of the strategic planning process involves *"fulfilling the entrepreneurial role which is to bring about the unique event, the innovation that changes the probabilities"* (p. 53). These innovations, as referred to by Schutte, are summarized as action programs stating the objective of the program, the steps to be taken, by whom they are to be taken and when they are to be undertaken as well as the financial profit impact of the program.

Robinson and Pearce (1985) state that the strategic plan should be a five year plan while the tactical plan should be focused on one year only. According to Robinson and Pearce (1985) the implementation of the chosen strategy or strategies follows from the strategic plan by means of the following:

- structure and leadership;
- the tactical plan;
- control.

Hunger and Wheelen (1996) state that once a strategy and a set of policies have been formulated, the focus of strategic management shifts to implementation. Strategy implementation is the sum total of the activities and choices required for the execution of a strategic plan and although implementation is usually considered after strategy has been formulated, implementation is a key part of strategic management. According to Hunger and Wheelen (1996) strategy formulation and strategy implementation should be considered as two sides of the same coin.

Hunger and Wheelen (1996) state that to begin the implementation process, strategic managers must consider three questions, namely:

- *Who* are the people who will carry out the strategic plan?
- *What* must be done?
- *How* are they going to do what is necessary?

Management initially should have addressed these and similar questions when analyzing the pros and cons of strategic alternatives. Hunger and Wheelen (1996) state that unless management can answer these basic questions satisfactorily, even the best-planned strategy is unlikely to yield the desired outcome.

In a survey of 93 Fortune 500 firms conducted by Alexander (1991) it was revealed that over half of the corporations experienced the following ten problems when they attempted to implement a strategic change. Alexander (1991) lists these problems in order of frequency of occurrence.

1. Implementation slower than originally planned.
2. Unanticipated major problems.
3. Ineffective coordination of activities.
4. Competing activities and crises that distracted attention away from implementation.
5. Insufficient capabilities of the involved employees.
6. Inadequate training and instruction of lower level employees.

7. Uncontrollable external environmental factors.
8. Inadequate leadership and direction by departmental managers.
9. Poor definition of key implementation tasks and activities.
10. Inadequate monitoring of activities by the information system.

Another important aspect concerning implementation that in recent times came to the fore is re-engineering and no discussion of strategic implementation would be complete without touching on the subject of re-engineering. Re-engineering according to Rigby (1993) is the radical redesign of business processes to achieve major gains in cost, service or time.

According to Hammer (1990) it is an effective way to implement a turnaround strategy involving the following:

- A fundamental rethinking of the way work is done.
- A structural reorganisation - breaking hierarchies into cross-functional work teams.
- A new information and measurement system.
- A new value system with greater emphasis on customers.

Hunger and Wheelen (1996) conclude by stating that poor implementation of strategy may cause that strategy to fail. An excellent implementation plan, however, not only will cause an appropriate strategy to succeed, but it can even rescue a questionable strategy. According to Hunger and Wheelen (1996) an increasing number of chief executives are therefore, turning their attention to the problems of implementation and now more than ever before they realize that a successful strategy depends on resources such as organisation structure, resource allocation, compensation programs, information systems and corporate culture.

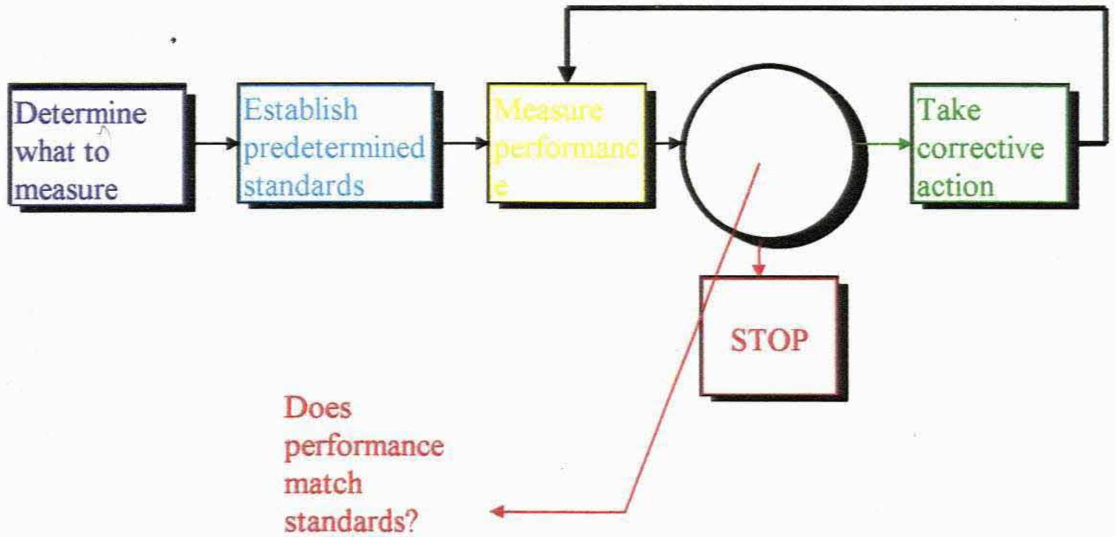
Evaluation and Control:

This final phase in the strategic management process is also regarded as very important. Kroon (1993) states that evaluation and control bridge the gap between planning and the implementation of strategy. According to Kroon (1993) the ultimate test for a good strategy is whether enterprise objectives and goals, functional objectives and goals and individual objectives and goals are achieved and the enterprise mission thus fulfilled. The control process will show whether the strategy has achieved its goals or not and is thus also a very important input as a starting point when the strategic plan is revised.

Hunger and Wheelen (1996) state that the control process ensures that the company is achieving what it set out to accomplish. According to Hunger and Wheelen (1996), evaluation and control is the process by which corporate activities and performance results are monitored and actual performance compared with desired performance. At this stage managers at all levels of the business must use the relevant information to take corrective action.

Hunger and Wheelen (1996) state that for evaluation and control to be effective, managers must obtain clear, prompt and unbiased feedback. By using this feedback, managers can then compare what is actually happening in relation to what was originally planned in the formulation stage. According to Hunger and Wheelen (1996) this process can be seen as a five-step feedback model as is shown in Figure 2.3.

Figure 2.3 - Evaluation and Control Process



Determine what to measure:

Top managers and operational managers must specify the implementation process and results that will be monitored and evaluated. The process and results must thus be measurable in a reasonably objective and consistent manner. Hunger and Wheelen (1996) emphasize that measurements must be found for all important areas regardless of difficulty and because quality is often hard to measure, this step is crucial for implementing a total Quality Management Program.

Establish predetermined standards of performance:

Standards, according to Hunger and Wheelen (1996), used to measure performance are detailed expressions of strategic objectives. They act as measures of acceptable performance results with each standard usually including a tolerance range which defines acceptable deviations.

Measure actual performance:

Measurements must be made at predetermined times.

Compare Actual performance with the standard:

If actual results are within the desired tolerance range, the measurement process stops here.

Take corrective action:

If actual results fall outside the desired tolerance range, action must be taken to correct the deviation.

Lorange, Morton and Ghoshal (1986) have identified three types of control, namely Strategic control, Tactical control and Operational control.

- Strategic control deals with the basic strategic direction of the corporation in terms of its relationship with its environment. It focuses on the organisation as a whole and might emphasize long-term measures (one year or more, according to Lorange, Morton and Ghoshal (1986)), such as return on investment and changes in shareholder value.
- Tactical control in contrast, deals primarily with carrying out the strategic plan. It emphasizes the implementation of programmes and might use medium range criteria (six months to a year according to Lorange, Morton and Ghoshal (1986), such as market share in particular product categories.
- Operational control deals with short-term (today to six months according to Lorange, Morton and Ghoshal (1986)) corporate activities and focuses on what is at present necessary to achieve near- and long-term success. A result of operational control would be immediate feedback to workers to enable them to minimize defects in the production process.

Hunger and Wheelen (1996) state that in designing a control system, top management needs to remember that control should follow strategy. They recommend the following guidelines for proper control:

1. Control should involve only the minimum amount of information needed to give a reliable picture of events. Too many controls create confusion and Hunger and Wheelen (1996) suggest that managers should focus on that 20% of the factors that determine 80% of the results.
2. Control should monitor only meaningful activities and results, regardless of measurement difficulty.
3. Control should be timely so that corrective action can be taken before it is too late. Steering controls, or controls that monitor or measure the factors influencing performance, should be stressed so that advance notice of problems could be given.

4. Control should be long-term as well as short-term because emphasizing only short-term measures, is likely to lead to a short-term managerial orientation.
5. Control should pinpoint exceptions, with only those activities or results that fall outside a predetermined tolerance range being identified for attention.
6. Control should be used to reward meeting or exceeding standards rather than to punish failure to meet standards. Heavy punishment will typically result in goal displacement encouraging managers to falsify reports and lobby for lower standards.

Kroon (1993) states that strategic control is done by top management in that it determines the progress of enterprise goals. This is done through "key success factors", such as higher productivity, good market segmentation and bigger market share, better quality products and services, higher morale of workers and increased earnings per share. Kroon (1993) states that control and evaluation bridge the gap between strategic planning and the implementation of strategy. The ultimate test for a good strategy is whether enterprise-, functional- and individual objectives and goals are achieved and the enterprise mission fulfilled.

The control process and the evaluation of the present performance and strategy will show whether the strategy has achieved the goals. This information is used as important input and as a starting point when the strategic plan is revised annually.

Schutte (1993) sums up the process of evaluation and control very effectively by stating that: *"Control is a dynamic process of managing towards the achievement of the organization's objectives"* (p. 103). It is undertaken within the strategic guidelines provided by top management as a result of the strategic management process. It is important to note that it is a "dynamic" process, because whenever a "performance gap" is experienced, the process can be short-circuited and repeated with better input from a previous stage in the strategic management process.

Hunger and Wheelen (1996) conclude by stating that, unfortunately, during the past several decades top management has almost forgotten the importance of strategic control. They have often shifted control to the tactical and operational levels which then in turn led to short-term crisis management.

STRATEGIC MANAGEMENT IN SMALL AND MEDIUM BUSINESSES

The main theme of this dissertation is about SME's and strategic management. All the aspects and theory surrounding strategic management as discussed earlier in this chapter are, with the necessary adaptations to suit a smaller organization, applicable to SME's. Shrader, Mulford and Blackburn (1989) state that strategic planning is strongly related to small business performance. Although this may be true and proven in practice, the fact of the matter is that many small companies still do not utilize the process.

Research that was done by Kuratho and Hodges (1992) proved that long-range planning in both high-performing and low-performing small businesses ensures:

- cost savings
- accurate forecasting
- faster decision making

In high-performing small businesses the following additional advantages resulted from long-range planning:

- better resource allocation
- an improvement in the competitive position
- a more thorough exploration of alternatives
- increased sales

According to Smit and Morgan (1996) the entrepreneurial style of management and the size of the business have certain definite advantages when it comes to strategic management - the message is that even though the business is not an international company or large corporation, strategic management can still be of value. Smit and Morgan (1996) continue to list a number of very relevant advantages that strategic management holds for the smaller enterprise:

- The entrepreneur can respond strategically because he/she has an in-depth knowledge of his/her organization and its operations.
- The small business has a limited product range, a well defined customer base and a specific geographic market area. This makes it easy to adjust the strategy as and when required.
- Because of the size of the business and the fact that all power is normally vested in the owner/manager of the business, a SME has the necessary flexibility and adaptability, enabling the business to respond to environmental changes rapidly.
- In a small business the employees work closely with the owner/manager. Strategic management is thus simplified because they are familiar with the vision and mission of the business. This will enable all workers to identify with the vision and mission and be enthusiastic about it.
- Owners/managers are involved in the everyday operation of the business. They do not have to plan and evaluate from a distance, nor do they have to rely on second-hand information from people who are more involved in the business than they are.
- The person in charge of a SME has a thorough knowledge of the business and does not have to convince or refer to superiors or head offices when formulating a strategy.
- Entrepreneurs and managers of SME's are better at identifying and responding to genuine changes in the environment that affect their business. Their intuition, insight and closeness to the operations of the business give them an edge which compensates for their lack of knowledge of strategic management techniques and methods.
- When the structure is simple, as it is in an entrepreneurial or small organization, a vision can be formulated and implemented with little effort.

Researchers generally agree that the strategic management process in small firms should be less formal than it is in large companies (Thomas, 1989). It was found that a strong emphasis on structured, written plans may be dysfunctional to small entrepreneurial firms because it reduces the flexibility that is crucial to their success. According to Hunger and Wheelen (1996) their descriptive model of strategic management (Annexure 2) is as relevant to entrepreneurial ventures and small businesses as it is to large multi-national companies. They state that small and developing companies will increase their chances of success if they make a serious attempt to work through the strategic issues embedded in the strategic management model, but also agree that the strategic management process will differ between large businesses and smaller businesses (SME's).

According to Scarborough and Zimmerer (1993) it is a mistake to attempt to apply big business strategic management techniques to a small business because, a small business should not be treated as a little big business. Schollhammer and Kuriloff (1979) states that the scope of planning and the depth and sequence of analysis differ depending on a number of characteristics of the enterprise such as:

- the size and the type of business,
- the nature and the magnitude of the problems facing the organization,
- the planning capabilities of its management and
- the available staff support for the planning purposes.

Hunger and Wheelen (1996) state that the key, whether big or small, is to focus on what is important. According to their and other research (Schutte, 1993) it is important to focus on the set of managerial decisions and actions that determine the long-run performance of the company. This "set of managerial decisions and actions" will in the case of a small business be more informal than the formal approach applicable to large corporations. The following table by Hunger and Wheelen (1996) illustrates the point that although the process is more or less the same for large and small, there would be a different approach.

Formal (Large)	Informal (SME's)
Define mission	**What do we stand for?**
Set Objectives	**What are we trying to achieve?**
Formulate strategy	**How are we going to get there? How can we beat the competition?**
Determine policies	**What sort of ground rules should we all be following to get the job done right?**
Establish programs	**How should we organize this operation to get what we want done as cheaply as possible with the highest quality?**
Prepare pro forma budgets	**How much is it going to cost us and where can we get the cash?**
Specify procedures	**In how much detail do we have to lay things out, so that everybody knows what to do?**
Determine performance measures	**What are those few key things that will determine whether we make it? How can we keep track of them?**

It is also very important for a SME to scan and investigate its environment and on the basis of the environmental scanning, develop and formulate strategies. The environmental scanning process in small businesses is much less complicated than in large corporations. Another important distinguishing factor separating SME's from large corporations is that small businesses usually are too small to justify hiring a professional person to do the environmental scanning or strategy formulation. According to Shuman and Seeger (1986), who conducted a study of 220 small, rapidly growing companies, the majority of CEOs were actively and personally involved in all phases of the planning process, and especially in setting objectives. They found that only 15% of the companies used a planning officer or formed a planning group to assist in the planning process.

Hunger and Wheelen (1996) state that a fundamental reason for the differences in strategy formulation between large and small companies lies in the relationship between owners and managers. The CEO of a large corporation has to consider and balance the varied needs of the corporation's many stakeholders. The manager of a SME is, on the contrary, very likely to also be the owner of that business and therefore the primary stakeholder. In such a situation personal and family needs are likely to influence the business's vision, and objectives and, therefore, override other considerations.

According to Birley and Norburn (1985) it is first necessary to understand the motivation of the owner in order to understand the goals of a small organization since the two are very closely related. This phenomenon is also more evident in the early days of the business's start-up.

As is evident from earlier discussions, a SWOT analysis is considered to be very important in the environmental scanning and strategy formulation phases of the strategic management process. Hunger and Wheelen (1996) believe that the basic SWOT analysis is as relevant to small businesses as it is to large businesses. Both the greatest strength and weakness of the small business, at least in the initial stages, rest with the entrepreneur - whether he/she is the owner/manager/investor of the business. Hunger and Wheelen (1996) states that the entrepreneur performs a very important function in that he is the main source of product and market strategy and also the dynamo who energizes the company.

A proper SWOT analysis would, therefore, also focus on the entrepreneur. Just as an entrepreneur's strengths can be the key to a companies success, so too can personal weaknesses be a primary cause of failure. Fowler (1992) studied 270 clothing retailers and found that 85% of the managers of stores that had failed, had no prior retailing experience.

The implementation of strategy in a small business involves many of the same issues that are of importance to a large corporation. Hunger and Wheelen (1996) state that the major difference between the large and the small company relates to who must implement the strategy. As opposed to a large corporation, in a small business, the formulators of the strategy are normally the ones who implement it. This often leads to a situation where the line between strategy formulation and implementation becomes blurred.

Hunger and Wheelen (1996) also identified two implementation issues in small businesses that normally will have a direct effect on the strategic management process in the business, namely:

- organizing and staffing the growing business;
- transferring ownership of the business to the next generation.

Evaluation and Control is the last phase in the strategic management process. Birley and Norburn (1985) found that because of personal involvement in the decision making process, the manager/owner of a SME has little need for a formal, detailed reporting system. Hunger and Wheelen (1996) also state that evaluation and control procedures in a small company are rather informal and tend to reflect the owner/manager's preferences and government taxation policies rather than strategic management considerations.

Some SME's, according to Hunger and Wheelen (1996) are also run on a cash basis and, therefore, have minimum reporting procedures. For these and other reasons, owners, operators and outside observers should be wary of using standard evaluation methods to measure the health of a small, privately owned company.

CHAPTER 3

RESEARCH QUESTIONS AND HYPOTHESES

According to Powell (1992) empirical researchers began to examine the performance consequences of formal strategic planning in all earnest around 1970. Powell (1992) sites research by Thune and Norburn (1970), Ansoff et al. (1970) and Herold (1972) as examples of these first attempts to investigate the effect of formal long-range planning on the performance of businesses. According to Powell (1992) over 40 planning-performance studies have appeared since that time up to 1992 when he did his research. Work specifically researching the relationship between formal long-range planning, or strategic management and SME's only started in the middle/late 1980's.

The performance-planning relationship forms the basis of this research project. The main research problem or point of departure, therefore, was to ask and build around the question whether strategic management can be regarded as a precondition for financial success in SME's, the test for performance in virtually all organizations being financial performance and financial success. To support this argument, the author relied on the results of previous research that reported that not many SME's make use of formal strategic management techniques. Coupled with this, it can be well argued that the high rate of insolvencies and failures amongst SME's are directly related to the fact that SME's do not, for various reasons, manage strategically. Any relatively big change in the external environment of many SME's would certainly cause great problems for these businesses.

In order to put the broader issue in perspective, the following three questions were asked in an attempt to provide answers and to arrive at a set of principles or "rules" that would contribute in solving the strategic management/performance question as far as SME's are concerned.

- The first question specifically addresses the main problem. Is there a positive relationship between performance and long-range planning in SME's?

- Due to the very important role that managers and owners (in many cases the owner is also the manager) perform in virtually al facets of a SME's operations, the question whether managers, entrepreneurs or owners of SME's regard strategic management as important and of any value at all, was asked. Together with this, the technical ability of SME owners and/or managers to execute strategic management was researched.

- With the differences between large multi-national companies and SME's in mind, the third question focused on how formal should a strategic management process in a SME be in order to have a positive impact on the performance and survival of the business.

In order to answer these problems and questions, the following four hypotheses were developed and researched:

* Hypothesis 1. SME's engaging in formal long-range planning will have a significantly higher performance record than their non-formal planning counterparts.

Hypothesis 1 focused on the most basic aspect of this study, namely whether premeditated planning efforts by a business will enable and benefit that business to such an extent that it will outperform its counterparts that do not do any formal planning, but rather negotiate and handle problems and opportunities as and when they arrive. The point of departure being that, to sit down and plan ahead after doing some sort of research concerning the business itself and the situation the businesses finds itself in, takes time, effort and money. If it is of no tangible benefit to the business, why waste the money and time in doing it?

This principle of comparing potential benefits with the costs in obtaining those benefits is of importance to big, medium and small businesses, but more specifically so in the case of SME's. They normally do not have the resources available to experiment with costly exercises that might not produce the necessary results.

* Hypothesis 2. Top managers in SME's appreciate the fact that strategic planning is a valuable management tool, but contribute the general absence thereof in the management of small businesses to a lack of time and a lack of skills.

Robinson (1982) states that small firms that engaged in strategic management with the assistance of outsiders achieved better results and actually outperformed similar firms that did not make use of these outside expertise. Firms, according to Robinson (1982) that did make use of outside expertise achieved significant performance improvement in profits, sales growth, employment and productivity.

These findings by Robinson (1982) indicate that the use of outside expertise will benefit a SME in its efforts to plan and manage strategically. Two important questions automatically come to the fore in evaluating these findings, namely:

1. Although top managers/owners of SME's recognize the value and potential benefits of strategic management in their organizations, they themselves do no actively pursue and manage the process of strategic management, but rather entrust outsiders and consultants with the job. Why?
2. Would the active involvement of the real owners and managers of SME's, that know their businesses far better than any "outsider" with no actual long-term interest in the business, not be of much more value to the business than the inputs of a consultant with no real interest other than his fee? In other words, would it not be better for managers/owners of SME's to rather sacrifice their attention towards other "important" issues of the business and rather concentrate on strategic management themselves instead of leaving this facet of their management task to consultants?

* Hypothesis 3. There is a correlation between the degree of emphasis on strategic management or formal long-range planning and the size of the business.

Do businesses first need to be "big" before they can start applying strategic management principles in the management of the business? What "size" can be regarded as "big enough", in other words, at what stage in its development process does a business actually cross that "break-even point" in size from where onwards it becomes beneficial to manage strategically? The question can also be asked whether the practice of strategic management before this qualifying stage in the business's development is reached, would actually harm the business.

According to Scarborough and Zimmerer (1993) it is a mistake to attempt to apply big business strategic development techniques to a small business because a small business is not a little big business. Smit and Morgan (1996) state that strategic planning in a small business is the combination of a business idea with a plan of action. Smit and Morgan (1996) compare the strategic planning process in a small business with the strategic planning activities that take place at the functional level of a large business or corporation.

Smit and Morgan (1996) also state that the planning horizons for a smaller business would be relatively short-term in nature with a maximum time horizon of two years for the majority of smaller businesses. This time horizon can be compared to the generally accepted norm of any period of up to five years in the case of large companies.

All of the above as well as various other research findings and conclusions surrounding the applicability and effectiveness of strategic management in SME's, revolve around the size of the business. Hypothesis 3 was specifically tested in the research questionnaire in an effort to analyze the practical situation concerning the above.

- <u>Hypothesis 4. The process of strategic planning and not the plan itself, is the critical success factor in strategic management by SME's.</u>

Smit and Morgan (1996) state that there is no single formula for strategic management. This view on strategic management is shared and strongly supported by a number of experts in the field of management science. Schutte (1993) states that numerous models reflecting the strategic planning process have been developed in the literature. All of these models are being applied in many companies and businesses with varying degrees of success.

In various other studies, for instance Robinson and Pearce (1983), it was found that SME's that did engage in formal planning exercises, outperformed those SME's that did not engage in some sort of formal planning. No specific formal planning technique or model was however cited as the model responsible for their success. In many instances the mere fact that the SME was looking at its problems, challenges or opportunities from a strategic point of view, was enough to ensure better performance results over the longer term.

The aim with Hypothesis 4 was thus to investigate how important a specific model or specific steps in the strategic management and planning process are and whether there is a specific model or process that must be followed in order to achieve the necessary results.

CHAPTER 4

RESEARCH METHODOLOGY AND QUESTIONAIRRE

Empirical researchers, according to Powell (1992) began to examine the performance consequences of formal strategic planning since about 1970. Since then numerous studies have appeared, but according to Powell (1992) the number of these studies and the interest in this specific topic has abated to an extent over the last few years.

The main reason for this phenomenon was identified by Powell (1992) to be the following: *"Previous studies lacked theoretical grounding, produced a bewildering array of contradictory findings, drew heavy criticism for inadequate methodologies and had little or no discernible nett impact on strategic management research or practice"* (p. 551). Research that was cited by Powell (1992) to support his statement includes Shrader, Taylor and Dalton, (1984); Pearce, Robbins and Robinson, (1987); Pearce, Freeman and Robinson, (1987).

Pearce, Freeman and Robinson (1987) concluded that empirical support for the normative suggestions that all firms should engage in formal strategic planning has been inconsistent and often contradictory. To explain the contradictions, Powell (1992) focused on methodological flaws, including failure to account for key contingency variables, incomplete and unreliable planning measures, cross-sectional designs, heterogeneous samples, small sample sizes and non-robust statistical procedures.

From the above it is evident that research methodology, which is an important factor in any research situation, is of great importance when researching the strategic management/performance consequence topic. This may, according to Powell (1992), in part be attributed to the fact that researching this topic is more complicated because of the fact that it tends to be more qualitative than quantitative in nature. Powell (1992) states that factors such as the dissemination of strategic planning over time, industry differences and market imperfections can cause problems and can result in obtaining conflicting evidence from different empirical studies researching the same topic.

The research methodology applied for the purposes of this study was as follows:

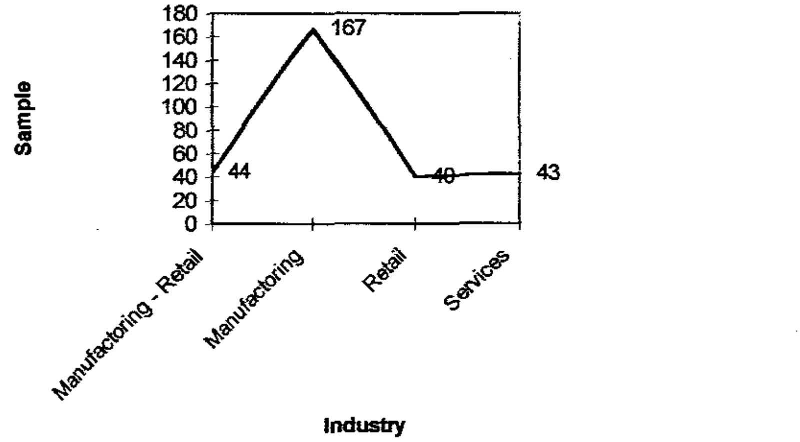
4.1 Sample:

The study concentrated on small and medium businesses in the greater Cape Town area. The main business centers covered were as follow: Maitland and Ndabeni, Athlone and Cape Flats-area, Bellville-South/Joostenberg-vlakte/Kraaifontein-area, Atlantis and Montugue Gardens. (From the study it prominently came to the fore that Montugue Gardens is a very important business center, specifically for SME's.) It is important that the businesses that were selected, were all operating within the same basic environment due to the fact that the environment is considered to be such an important factor from a strategic management point of view.

The Cape Chamber of Commerce and Industry's data base for small and medium businesses was used as a data base for sampling. No specific effort was made to include or concentrate on for instance manufacturing firms as opposed to for instance businesses in the services industry. The main criteria used to identify the total population of businesses that would comply to the general definition of SME's, were as described under the heading "Delimitation's" on page 8.

Figure 4.1 illustrates a breakdown of the number of businesses per industry that eventually made up the total sample of 294. As can be seen, manufacturing firms represented 57% of all firms sampled and thus made up the largest portion of the sample.

Figure 4.1 - Sample per Industry



In many of the previous studies covering this topic, the research concentrated only on a specific industry and therefore their results could be argued to only reflect the situation in that industry. Research by Armstrong (1991) clearly indicated that strategic planning improved performance in manufacturing firms. The research by Robinson and Pearce (1983) focused on a group of banks.

For the purposes of this study it could be established how many manufacturing or retail firms, for instance, were in the total sample, but, because of the construction of the questionnaire it was not possible to afterwards get the same information from the completed questionnaires, due to the fact that respondents were not specifically asked in which economic sector or industry they were operating in.

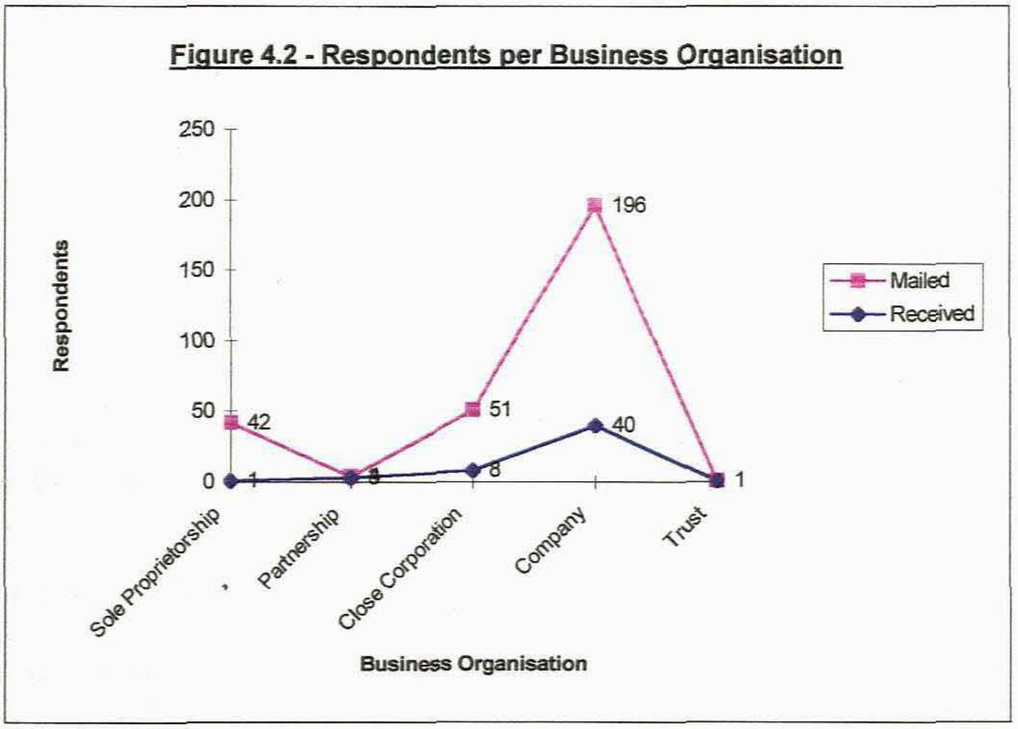
Due to the fact that there is no data base available that can with absolute accuracy, reflect the total population as described in the "Delimitation"-section, it was assumed that the total population for the geographical area as indicated, was between 2000 and 2500.

Given this population, a sample size of 300 was considered to be sufficient. The attached questionnaire was then mailed to a stratified randomly selected sample of 300 businesses. (Refer to Annexure 1 for a copy of the questionnaire that was used.)

In various studies on this subject conducted in the United States, relatively good response rates were experienced due to the fact that questionnaires were kept short and concise. Questionnaires were mainly completed by the CEO/manager who had an interest in and knowledge of the subject matter (Shrader, Mulford and Blackburn, 1989). The covering letter that accompanied the questionnaires for the purpose of this study was also specifically addressed to the CEO, Managing Director or Owner. (A copy of the covering letter is included with the questionnaire in Annexure 1.)

Of the 300 questionnaires that were mailed, 6 questionnaires were returned due to incorrect or outdated addresses. Of the remaining 294 questionnaires, 53 completed questionnaires were received from the respondents. Of these only 48 could be used, because 5 questionnaires were insufficiently completed . This represents a response rate of 18.03% which can be considered reasonable given the normal problems associated with the mail survey method. Powell (1992) obtained a response rate of 20.8% in his research. Powell (1992) stated that it was acceptable in the light of the high proportion of privately held firms, the direct involvement of CEO's and the fact that his sample represented a significant proportion of two relatively homogeneous industry populations.

Figure 4.2 gives a clear indication of the number of questionnaires mailed per format of business organisation and the number of completed questionnaires received for each of the business forms. As can be seen, the response rate from companies (20.41%), were the best compared to close corporations (15.69%) and sole proprietors (2.38%).



Due to the relatively low response rate that was obtained and the fact that the author had access to the files of one of the major commercial banks in South Africa it was also decided to select and utilise a control group of businesses that had experienced serious financial difficulties to such an extent that these businesses were handed over to the legal department of the particular bank in order for legal steps to be taken against them. These "legal steps" inevitably also led to the liquidation or sequestration of these firms.

A total of twenty firms were selected to form part of this control group. The selection was not done in a very scientific manner as was the case with the initial 300 business that were selected for the main research. The following principles were, however, maintained in order to ensure continuity and thus to improve the value of utilizing the control group:

- The 20 businesses were selected from a large number of firms that were handed over to the bank's legal department and that originated from the same geographical area that the businesses in the main sample came from.
- The same definition for SME's that was used to select the main sample, was also used to ensure that only SME's were selected to the control group.
- The acid test was that if this specific business was not in serious financial problems and was still operating like any other solvent SME in that geographical area, it should have had an equal chance of being selected as part of the sample that was used for the main research.

A major problem that was experienced with regard to the utilisation of the control group, was that the absolute identical information on the history of all the businesses in the control group could not be obtained on exactly all the businesses. All of these business were, for all practical purposes, still clients of the particular bank and therefore the author had to respect the bank's rulings with regard to anonymity and confidentiality. Due to the sensitive nature of the research and the bank/client-relationship, it was also not possible to obtain any missing information on a particular business with the use of for instance a telephone call to the CEO. Due to this limitation, the author also had to rely on the expert opinion of bank managers and credit analysts that have been dealing with a specific business over a period of time.

In many instances the information obtained via this method was very practical and comprehensive and although it can hardly be described as textbook scientific research, valuable deductions and conclusions could be made. The results and conclusions of the analyses of the control group will be discussed together with the results and possible conclusions from the formal research questionnaire in chapter 6.

4.2 Questionnairè:

The research questionnaire was also constructed with specific aims and objectives in mind. Due to the pivotal role of the research questionnaire in the whole research effort, the construction and specific objectives that the author had in mind with the relevant questions need to be explained and elaborated on. (Refer to Annexure 1 for copy of the Questionnaire.)

The first research question asked, "Is there a relationship between performance and long-range planning in Small and Medium Businesses?" To examine this research question the following hypothesis was tested:

- Hypothesis 1: SME's engaging in formal long-range planning will have a significantly higher performance record than their non-formal planning counterparts.

This hypothesis was specifically tested in the questionnaire by means of questions 4, 15, 16, 17 and 24. The questions focused on establishing whether a planning/performance relationship could be detected. The time that a business has been in existence (question 4) would be an indication of the fact that the management of that business is doing something right if the business has been successful and running profitably for a few years.

The response to question 4 coupled with the response to questions 17 and 24 would give an indication as to whether there has been some form of formal planning in the business that could have contributed to the fact that the business has been successful over the period. Question 15 and 16 would give an indication of how formal the management and measurement of the planning process is. The measurement of the performance of the business was specifically tested with question 15.

Question 15 posed six instruments commonly used to measure performance in a business and from the number of instruments that a business has indicated to be utilizing, an assumption could be drawn with regard to the measurement of performance in that business. A business that, for instance, uses five of the six instruments would be in a better position to manage strategically, because of the fact that it is able to measure its own performance. It can then also be argued that a business that does not use any or only one or two of these instruments, would be in a less favorable position to manage strategically, because of the fact that it would not be in such a good position to measure performance and take corrective action.

The ideal situation would have been to obtain performance data on each of the six performance instruments over a period of time, for instance three years, but, due to the very sensitive nature of this kind of information not many businesses were willing to supply the information or supplied incorrect information.

The second research question asked, was: "Do senior managers/entrepreneurs in SME's regard strategic planning as important and do they possess the necessary planning skills?" To examine this research question the following hypothesis was tested:

- Hypothesis 2: Top managers in SME's appreciate the fact that strategic management is a valuable management tool, but contribute the general absence thereof in the management of small businesses to a lack of time and a lack of skills.

This hypothesis was specifically tested in the questionnaire by means of questions 9, 13 and 13.1. The specific questions mentioned would all give an indication as to how serious top management/CEO's/owners of SME's rate strategic management and very important, why do they not devote more or any time to managing strategically.

Question 9 also investigated the extent to which top management of SME's make use of outside experts or consultants in their efforts to manage strategically. If a business would for instance make use of consultants in its efforts to manage strategically, it can be assumed that the management appreciates the value of strategic management, but due to limitations, such as a lack of time, cannot attend to the matter themselves.

The third research question asked, was: "Is the development of a formal, written strategic plan a precondition for strategic management and planning in SME's?" To examine this research question the following hypotheses were tested:

- Hypothesis 3: There is a correlation between the degree of emphasis on formal long-range planning and the size of businesses.
- Hypothesis 4: The process of strategic planning and not the plan itself, is the critical success factor in long-range planning by SME's.

Hypothesis 3 was specifically tested in the questionnaire by means of questions 1, 2, 10, 22 and its correlation with question 13.

Strategy and structure are two aspects in the field of strategic management that are very closely related to each other. Hunger and Wheelen (1996) pertinently state that structure will (and must) always follow strategy and not the other way round. In this context, it can also be argued that size and structure are two aspects of business management that are very closely related.

Questions 1 and 2 measure size and by comparing the reaction to these questions with the reaction to question 13, the author will be in a position to derive a supposition on the correlation between the degree of emphasis on formal long-range planning and the size of businesses. Another important aspect concerning "size" is the structure of a business. As businesses grow, they need to alter structures within the business in order to accommodate more personnel, more complex processes, etc. the position relating to structure was measured with question 22.

Hypothesis 4 was tested by means of questions 6, 7, 8, 11, 11.1, 12, 14, 15 and 23. The questions that were used to test hypothesis 4 in the first instance, evaluate the formality of the strategic management process of the businesses and secondly investigate the assumption that a less formal process would also benefit the business just as much as a very formal process with detailed written documents.

The mere fact that the senior management of the business go through the process or basic logical steps of strategic management, without formal written business plans, etc. would be a positive tendency as opposed to a situation where external consultants and experts are involved with subsequent detailed documents that are of no practical use for the management of the SME. The answers to questions 11, 12, 14, 16 and 23 would all contribute to evaluating this assumption.

4.3 Statistical Analysis:

As stated in Chapter 1, a study concerning any aspect of strategic management in a business, and more so in the case of SME's, would always have to contend with the problem that the research would tend to be more qualitative than quantitative. This is perhaps also one of the main reasons why so many of the previous studies dealing with this topic were less rigorous in their research and meta-analyses methods than one should expect them to be. The criticism of earlier research work in this subject field by Powell (1992) is proof of the problem.

For this reason the author engaged in the research and specifically the analyses of the results of the survey, as technically correct as possible, but also tried to remain as practical as possible so that the research effort and results would not lose its value for the average manager of SME's in practice. For this reason straightforward analyses and comparisons were made with the use of Microsoft Excel.

The use of advanced statistical packages were investigated, but, for the purposes of this study, were found to be not that applicable as it would put the research in an academic bracket beyond the level where it could serve as a working guide for the average SME manager or owner that does not always have the necessary academic background to interpret and use formal statistics and all the tests and formula associated with it. The qualitative nature of the research also made it difficult to apply standard statistical calculations on the data.

CHAPTER 5

RESEARCH RESULTS

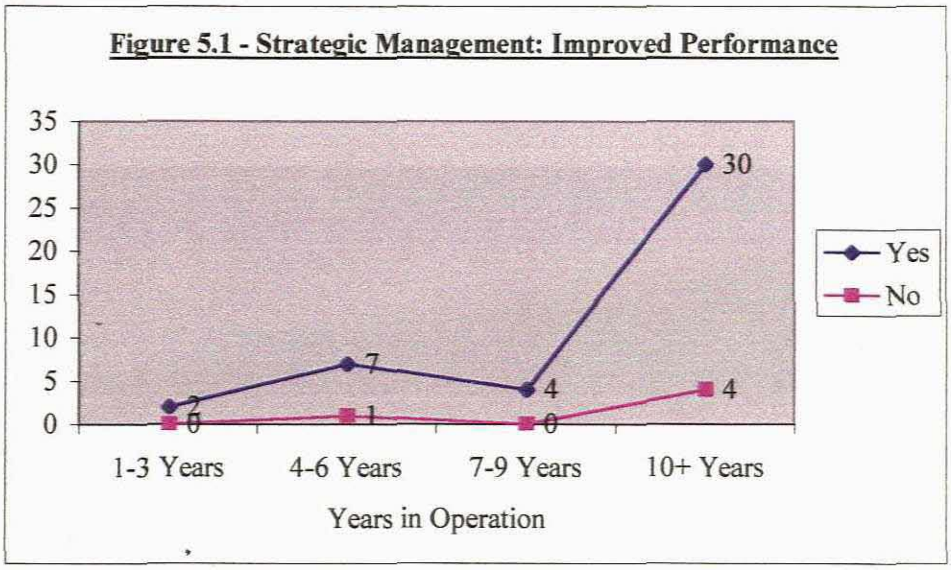
This chapter presents the findings of the research questionnaire in order of Hypothesis 1 to 4. As explained in the previous chapter, the questionnaire was constructed in such a manner that certain questions, on their own, or combined with various other questions, were aimed to specifically shed light on a specific hypothesis.

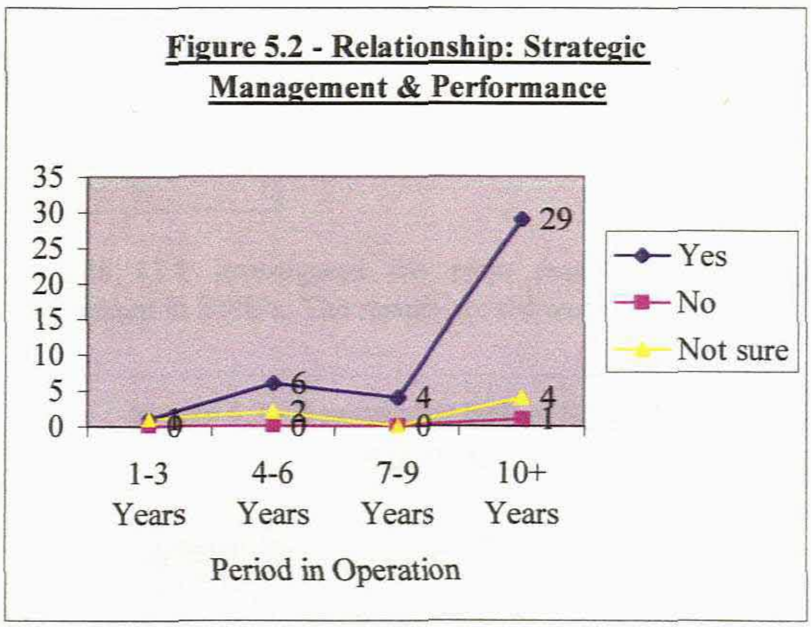
Hypothesis 1 investigated the assumption that formal long-range planning would lead to a better performance record for a SME. Questions 4, 15, 16, 17 and 24 are applicable and the results of an analyses of the response to these questions are as follows:
Question 4 directly asked the question as to how long the business has been in operation. Time was considered an important point of departure, because from interviews and previous research it came to the fore that "older" SME's were inclined to manage more strategically than newly established SME's. Table 5.1 gives an indication of the period in operation of the 48 respondents.

Table 5.1

How long has the business been in existence?	
1-3 Years	2
4-6 Years	8
7-9 Years	4
10+ Years	34

Questions 17 and 24 specifically focused on the relationship between performance and the application of strategic management principles in the business. Figures 5.1 and 5.2 are the results of question 17 and question 24 respectively. Note that the results are being given for each of the age-groups.





	Yes	No	Not sure
1-3 Years	1	0	1
4-6 Years	6	0	2
7-9 Years	4	0	0
10+ Years	29	1	4

Questions 15 and 16 were used to determine how formal (degree of formality) performance was measured by the SME's. Again the data was combined with the period that the SME was in operation. The results obtained were as depicted in Table 5.2.

Table 5.2

PERIOD IN OPERATION	USAGE OF FORMAL PERFORMANCE TECHNIQUES
1 – 3 YEARS	**25.00%**
4 – 6 YEARS	**60.42%**
6 – 9 YEARS	**33.33%**
10+ YEARS	**62.75%**

Hypothesis 2 investigated the issue whether senior managers and entrepreneurs in SME's, in the first instance regard strategic planning as important and secondly why they do not always give the necessary attention to strategic management in their total management approach.

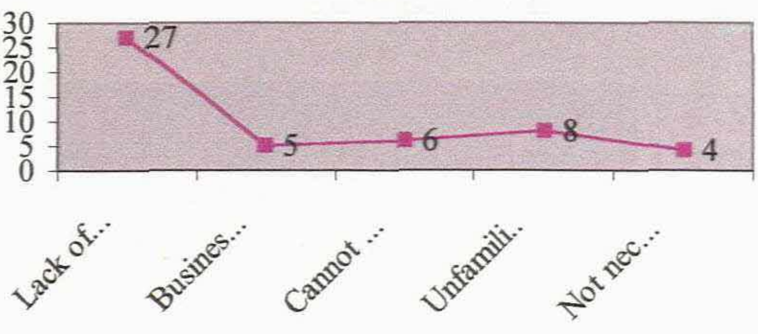
Question 13 requested managers to give their opinion on whether they are devoting enough time towards managing their businesses from a strategic point of view. Table 5.3 reflects the results to this question.

Table 5.3

Yes	17
No	31
Unsure	0

Question 13.1 investigated the main reasons for this apparent lack of strategic management in SME's. The results are shown in Figure 5.3.

Figure 5.3 - Reasons for lack of Strategic Management



Issues mainly responsible for lack of strategic management	
Lack of time	27
Business to small	5
Cannot afford expert	6
Unfamiliar with SM	8
Not necessary	4

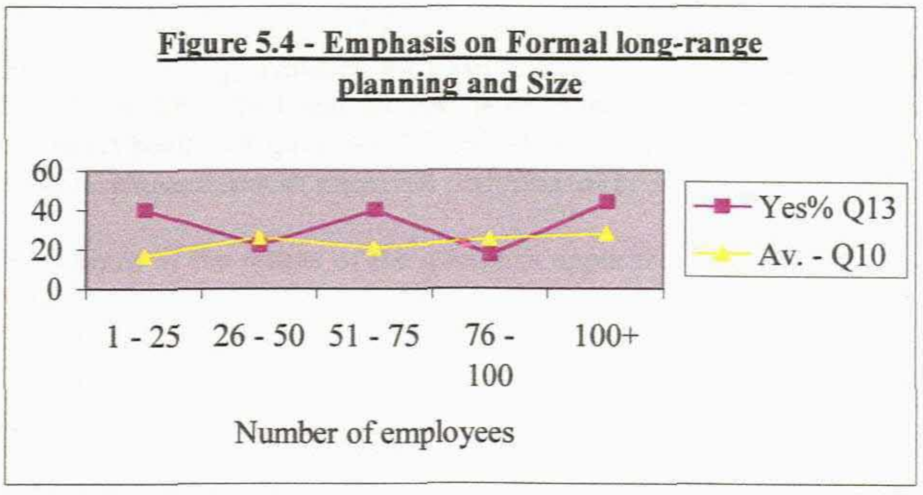
The use of external consultants to facilitate strategic management in SME's were researched by means of question 9. The results are as shown in Table 5.4.

Table 5.4

Yes	11
No	34
Unsure	3

Hypothesis 3 was tested by means of questions 1, 10, 22 and 13. Hypothesis 3 specifically investigated the correlation between business size on the one hand and the emphasis on formal long-range planning on the other. Because of the fact that size, strategy and structure are so interdependent, this relationship was also tested by means of question 22.

The results of questions 1, 10 and 13, reflecting the relationship between size, emphasis on strategic management and degree of formality of the process, are shown in Figure 5.4 below.



Size	Yes% Q13	Av. - Q10
1 - 25	40	16.8
26 - 50	22	25.76
51 - 75	40	20.8
76 - 100	17	25.36
100+	44	28

The purple line in the graph indicates a relationship between size and the emphasis on strategic management as was measured in question 13. The yellow line indicates the relationship between the degree of formality of the strategic management process, as was measured in question 10, with the size of the business.

The reaction to question 22, which investigated the issue surrounding structure, size and the business plan/strategic planning is given in Table 5.5 below.

Table 5.5

Structure sufficiently supporting Business/Strategic Plan			
Full time employees	Yes	No	Not sure
1 - 25	7	2	1
26 - 50	3	5	1
51 - 75	3	1	1
76 - 100	2	3	1
100+	8	8	2

Hypothesis 4 investigated the assumption that going through the process of strategic management and not the end result, namely the strategic plan itself, is the critical success factor in long-range planning for SME's. Hypothesis 4 was tested by means of questions 11, 12, 14, 18.1, 23.1 and the results of these questions were then compared with the combined results of questions 17 and 24, both investigating the relevant importance of strategic management to improved performance in SME's.

An analysis of the results of the questions applicable to Hypothesis 4, is shown in Table 5.6.

Table 5.6

Process is Critical	**Yes as %**	**Yes as %**	**Formal plan is critical**
Analyze S & W	79%	44%	Analysis of Internal Situation
Analyze O & T	85%	46%	Analysis of External Situation
Informal Budget	85%	50%	Strategy Formulation
Evaluation	83%	46%	Evaluation and Control
Importance of SM	86%	86%	Importance of SM

Control Group:

The results of the analysis of the data that was obtained for the control group of 20 businesses are as follows:

The first and also very important factors that were analyzed, were the age and size of the businesses in the control group. Table 5.7 represents the results of the investigation into these two variables.

Table 5.7

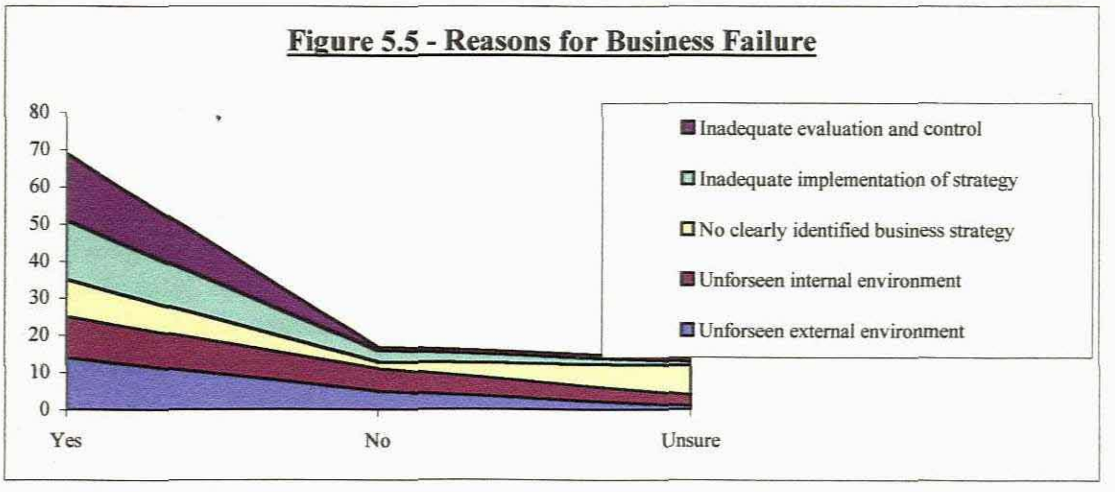
Age	**Businesses**	**Businesses**	**Employees**
1-3 Years	11	5	1 - 25
4-6 Years	2	9	26 - 50
7-9 Years	5	1	51 - 75
10+ Years	2	5	76 - 100
	20	20	

In only two of the twenty businesses in the control group concrete evidence was found which indicated that management in those businesses had developed a formal long-range plan, either in the format of a "rolling business plan" or a formal strategic plan.

An analyses of the main reason or a combination of reasons why each of these businesses failed or ended up in serious financial difficulty, proved to be very interesting. These "reasons" were categorised to represent the four main steps or sequential phases of the strategic management process, namely environmental scanning, strategy formulation, strategy implementation and evaluation and control. (Please refer to Chapter 2 for a more in-depth discussion concerning the strategic management process.) The following table and graph clearly illustrate the findings concerning the control group.

Table 5.8

Reasons for Business Failure	Yes	No	Unsure
Unforeseen external environment	14	5	1
Unforeseen internal environment	11	6	3
No clearly identified business strategy	10	2	8
Inadequate implementation of strategy	16	3	1
Inadequate evaluation and control	18	1	1



CHAPTER 6

DISCUSSION OF RESEARCH RESULTS

The results obtained via the formal questionnaires as well as the results of an analyses of the data obtained in relation to the control group will be discussed in more detail in this chapter.

Hypothesis 1: SME's engaging in formal long-range planning will have a significantly higher performance record than their non-formal planning counterparts.

As can be seen from Table 5.1, the majority of the businesses were is existance for 10 or more years. Only two, or 4.17% of the respondents were in existence for a period of less than three years. As opposed to this, 70.83% of the respondents were in existence for periods of ten years and more.

An analyses of Figures 5.1 and 5.2 would also indicate that the older businesses (ten years and more) experienced a far more positive correlation between strategic management or formal long-range planning than the new or so called start-up businesses of between 1 and 3 years. In total, however, the majority of respondents, as indicated in both Figure 5.1 and Figure 5.2, clearly stated that they have experienced a positive relationship between strategic management and performance.

Ninety percent of the respondents to question 17 indicated that the application of strategic management principles in their businesses lead to improved performance. Only 10% of the respondents could thus not detect the existence of such a correlation or did not apply strategic management at all. In reaction to question 24, 83.33% of the respondents indicated that there is a relationship between strategic management and increased performance as opposed to 2.08% according to whom no such relationship could be detected and 14.58% that were unsure about the existence of such a relationship.

From Table 5.2 it is also evident that the measurement of performance in the older businesses are more formal than in the new or younger businesses. Businesses of ten years and older made use of 62.75% of the possible formal performance measurement techniques that were mentioned in the questionnaire (question 15). Younger businesses, in the bracket 1 to 3 years, only made use of 25% of these techniques. Although Table 5.2 has a strong bearing on the formality of the process and would, therefore, also relate to Hypothesis 3 and 4, the fact that the results as indicated in Figures 5.1 and 5.2 tend to reflect that older businesses are more inclined to manage strategically and experience better performance results due to this, is supported by the additional evidence that they utilize more formal performance measurement techniques.

Hypothesis 2: Top managers in SME's appreciate the fact that strategic management is a valuable management tool, but contribute the general absence thereof in the management of small businesses to a lack of time and a lack of skills.

The first aspect questioned or argued in Hypothesis 2 relates to the value that senior managers in SME's attach to strategic management as a management tool or concept. In other words, do they take strategic management seriously and do they give enough attention to this facet of their management approach? The second aspect that is questioned or stated as a fact in Hypothesis 2 is that the lack of strategic management in SME's is due to the fact that managers in SME's do not always have the time and/or skills to practice or apply strategic management.

Question 13 investigated the first aspect mentioned by asking the respondents, who were all managers or owners of SME's, whether they believe that they are devoting enough time and energy towards managing the business strategically. Only 35.42% of the respondents answered in the affirmative, while 64.58% of the respondents answered in the negative. The relevant statistics are as reflected in Table 5.3.

Question 13.1 investigated the reasons for this apparent lack of attention to strategic management in SME's. As can be seen in Figure 5.3, the single biggest reason was a lack of time. As a matter of fact, more than fifty percent (56.25%) of the respondents indicated that this was the reason for not giving the necessary attention to strategic management in their businesses. A rather high number of respondents, namely 16.67% (nearly 20%!) indicated that the reason why they do not give the necessary attention to the strategic management of their businesses was that they are unfamiliar with strategic management.

The other reasons, namely that the business is to small (10.42%), that the business cannot afford an external expert (12.50%) and that strategic management is not necessary at all (8.33%), received less attention.

The use of external consultants to facilitate strategic management in the businesses were investigated by means of question 9. The response to question 9 would indicate that not many SME's make use of external consultants in their efforts to manage strategically. As stated above, only 12.50% of the respondents indicated that the main reason why they do not apply strategic management principles in their respective businesses, is the fact that they cannot afford external consultants.

However, as can be seen from Table 5.4, only a small percentage of businesses, namely 22.92%, actually do make use of external consultants. The other 77.08% do not make use of external consultants, or are unsure about whether they make use of them at all.

<u>Hypothesis 3: There is a correlation between the degree of emphasis on formal long-range planning and the size of businesses.</u>

The size of the businesses in the sample were measured by means of the number of full-time employees in the business's employment. This was done with the assistance of question 1. An analysis of the response would indicate that 21% of the businesses employed between 1 and 25 people, 19% employed between 26 and 50 people, 10%

employed between 51 and 75 people, 13% employed between 76 and 100 people and 38% of the respondents employed 100 or more people.

An analysis of the response to question 10, which measured the formality of planning processes in the businesses, was done for each of the five size categories. This analysis revealed the following:

- The average, on a scale of 1 to 5 for businesses employing 1 to 25 full-time employees, was 2.1.
- The average for businesses employing 26 to 50 full-time employees, was 3.22.
- The average for businesses employing 51 to 75 full-time employees, was 2.6.
- The average for businesses employing 76 to 100 full-time employees, was 3.17.
- The average for businesses employing a hundred or more employees, was 3.5.

These averages obtained for each category were then multiplied by a factor of 8 to bring it into perspective with the results of question 13, which measured the emphasis on strategic management in the business. The final result is shown in Figure 5.4.

One of the key principles concerning strategy and structure, with specific reference to strategic management, that would be found in almost all of the handbooks covering the subject, is that structure always follows strategy. According to Hunger and Wheelen (1996), one must always first determine a strategy and only after that, the structure can be formulated, adapted and put into place.

For this reason question 22 was built into the questionnaire as a control mechanism to evaluate the relationship between size, as measured by means of the number of full-time employees and the opinion of the respondents on the validity of structure in their businesses. The results are given in Table 5.5. From an analysis of Table 5.5 it is interesting to see that the sum of the "No" and "Not sure" columns, namely 25, is more than the total of 23 respondents which said "Yes", thus indicating that more respondents believe that their structures are not sufficient to support their strategic plans.

It is also very interesting to note that the bigger businesses were more convinced of the fact that their structures would not support their strategic- or long-term plans than were the smaller businesses. The one very obvious conclusion that can be drawn from this is that the bigger businesses had already done some homework on the matter as part of their strategical planning exercises, while the smaller businesses have not done so and this may well be the reason why they (smaller businesses) are still so confident about "structure".

<u>Hypothesis 4: The process of strategic planning and not the plan itself, is the critical success factor in long-range planning by SME's.</u>

The objective with hypothesis 4, in the first instance, was to investigate the general assumption that because of the fact that SME's are smaller, have less personnel to employ in specilised managerial positions and the fact that SME's, due to their general structure and size, lend themselves towards favoring a situation where they can actually very effectively apply strategic management techniques and principles without doing so in such a formal manner as big companies such as Anglo American, De Beers and Pick 'n Pay would do.

Secondly, Hypothesis 4 was meant to investigate whether SME's would benefit if they at least undergo the whole process of strategic management, without making it a very formal process with written plans, diagrams, flow-charts and graphs. The rationale behind this being that if a SME would go through all the trouble and effort involved in a strategic management session, it would at least sensitize the management to such an extent that only that exercise in itself would already lead to better performance and results.

Hypothesis 4 was tested by means of questions 11, 12, 18.1 and 23.1 which all measured the emphasis that the respondents have placed on the process of strategic management on the one hand as opposed to the emphasis on a formal plan that was measured with question 14. An analysis of the results and a combination thereof are summarised in Table 5.6.

The basic stages or phases of strategic management were stated in these questions and with the assistance of questions 11, 12, 18.1 and 23.1 the respondents were then asked to indicate whether they engage in these basic actions of strategic management in a more informal or a more formal manner. With the assistance of question 14, respondents were asked to indicate if they at all apply these phases and if so, then how many of the formal actions or steps associated with strategic management they utilize.

As can be seen from Table 5.6, 79% of the respondents indicated that they go through the process of analyzing their internal position in an informal manner as opposed to only 44% who actually transformed their internal analysis exercise into a formal plan. The same goes for an analysis of the external situation. In this case 85% of the respondents indicated that they go through the process, but only 46% of the respondents said that it is critical for this phase of the process to be taken up in a formal document or plan. As far as strategy formulation is concerned, the same scenario is present with 85% of respondents favoring the process only while 50% viewed the actual formal plan as critical. In the case of evaluation and control, 83% of respondents said that working through the process is very important as opposed to 46% of respondents who indicated that the actions must be taken up in a formal plan with relevant documentation.

The relative emphasis placed on strategic management itself by all the respondents, whether in favour of a formal plan or only working through the process, was exactly the same, namely 86%. The relative emphasis on strategic management was obtained by combining the results of questions 17 and 24.

Control Group:

An analysis of the data obtained for the control group of twenty businesses, proved to be very interesting and actually in support of the assumption that strategic management would assist SME's to survive and stay ahead of financial misfortunes.

As can be seen from Table 5.7, the majority of the businesses in the control group, namely 55% were in the age group 1 to 3 years. In the age bracket 4 to 6 years there were only 2 businesses, or 10%. The group between 7 to 9 years represented 25% of the total sample and the group 10+ years represented 10% of the sample. The data above clearly indicate that younger businesses or so called "new ventures" made up the largest portion of businesses who have experienced financial problems.

The size of the businesses in the control group was also measured using the number of employees as a yardstick. No clear pattern concerning size could be determined from the results obtained for the control group. The results concerning size are as follows:

- 1 to 25 employees – 25% of the sample
- 26 to 50 employees – 45% of the sample
- 51 to 75 employees – 5% of the sample
- 76 to 100 employees – 25% of the sample

As was mentioned in the previous chapter, in only two of the businesses in the control group could concrete evidence be found that management in those businesses had developed a strategic plan or "rolling" business plan, spanning a year or two into the future. Thus, only 10% of the control group practiced strategic management and notwithstanding that, also experienced serious financial problems.

It could be stated with relative certainty that these two businesses did not fail because of the fact that they were applying strategic management. Strategic management in other words, was not negative in any way for these businesses. The other ninety percent also experienced serious financial problems, but they did not make use of any strategic planning or management at all.

An analyses of the main reasons, from a strategic management point of view, as to why these business failed or ended up in serious financial difficulty was done. The methodology used was to categorize the apparent reasons for the business' problems into the four main or basic phases of strategic management, namely:

- environmental scanning – internal as well as external
- strategy formulation
- strategy implementation
- evaluation and control

If the business, for instance, did not have a proper system of evaluating financial results or the performance of the business, it was counted as a "Yes" under "Inadequate evaluation and control". In other words, businesses who recorded a "Yes", did suffer due to a lack of strategic management, with specific reference to the fact that there was no strategic plan focussing on evaluation and control. If the business, for instance, ended up in trouble due to the fact that it had inadequate resources, it counted as a "Yes" under the heading "Unforeseen internal environment", the reason being that if the business had a proper strategic plan in place it would have detected the fact that it is vulnerable as far as its resources were concerned.

If a certain strategic management action could be detected, it was counted as a "No" under the applicable heading. In other words, the specific strategic management action was performed and it, therefore, could not be cited as a reason for the business' problems. If there was no certainty as to the presence or absence of a specific strategic management action, it was counted as "Unsure" under the relevant heading.

The result of this analyses can clearly be seen in Table 5.8. Figure 5.5 also presents the results of the analyses in a very effective and graphical way. As can be seen from Table 5.8 a "Yes" was recorded in 69% of all the cases, meaning that in the case of 69% of the businesses in the sample, the actual reasons for their financial failure, could be linked to the fact that strategic management or at least one or more of the phases of strategic management were absent.

The relative "contribution" due to a lack of a certain phase or step in the strategic management process are as follow:

- no environmental scanning – internal and external : 36.23%
- no strategy formulation : 14.49%
- no strategy implementation : 23.19%
- no evaluation and control : 26.09%

"No" and "Unsure" thus in total represents 31%, meaning that in 31% of all the cases the reasons for business failure could not be attributed to the absence of strategic management. In other words even if these business did apply strategic management principles or had a strategic plan in place, it would not have rescued them. No meaningful pattern or relative importance could be detected in the case of the "No" and "Unsure" answers.

CHAPTER 7

EFFECT AND IMPLICATION OF RESEARCH RESULTS

The impact or effect of the research results as reported in Chapter 5 and discussed in Chapter 6 will be dealt with in detail in this chapter. The results obtained with the research project will also be compared to the findings of previous work that was done in the field of strategic management, SME's and the relationship thereof with improved performance.

Answering Hypothesis 1, based on the information obtained through the research questionnaires, it in the first instance very prominently came to the fore that a large portion (90%) of the respondents was satisfied that the application of strategic management in their businesses would lead to improved performance.

An equally large group, namely 83.3%, said that they definitely have experienced a positive relationship between strategic management and increased performance. There is thus sufficient support for the assumption that strategic management can definitely lead to improved performance in SME's.

The main emphasis of Hypothesis 1, however, is on whether strategic management orientated SME's will "significantly" outperform non-formal planning SME's. No concrete evidence to this effect was found, but the following assumptions can be made:

- The whole approach or underlying tone of the questionnaire was to focus on strategic management and a possible positive performance relationship. It can, therefore, be argued that a non-formal planning SME, which was also not performing very well, would in the first instance not even complete and return the questionnaire. Of those SME's that did return their questionnaires nearly all (90%) were in favour of or were already practicing strategic management and nearly all of them (83.3%) experienced a positive performance relationship.
- It can therefore be said that ± 82% of the population (those that did not complete and return their questionnaires) might have done so because they were not practicing strategic management and/or were not performing as they should. Although this is only an assumption, the data obtained on the control group of twenty businesses clearly came out in support of Hypothesis 1.
- Of the twenty businesses in the control group, 69% could have been saved from financial hardship if they had implemented a strategic management process. It can therefore be argued that if they had made use of a strategic management process, they too could have experienced the same success that the other 90% of the respondents have experienced.

Another factor in support of Hypothesis 1 is that in the control group of businesses, who have all failed financially, there were only 2 businesses (10%) that did apply a strategic management process of some sort. As opposed to this, 90% of the "formal" respondents have applied some sort of strategic management process and it must be remembered that all the "formal" respondents experienced financial success and nearly all of them have indicated that they anticipated this positive trend, supported by a budgeted growth in sales, to continue.

Given the above, it can thus be stated that although no concrete evidence could be found in support of Hypothesis 1, there are a number of powerful indicators in favour of it. These findings are supported by the findings of researchers such as Powell (1992) who found that firms who prospered despite the threat of competition and instability in their respective industries, were those firms that systematically monitored their environments – a key function of strategic management.

The fact that no evidence could be found for the statement that SME's engaging in formal long-range planning will have a <u>significantly</u> higher performance record than their non-formal counterparts is supported by the findings of Robinson and Pearce (1982) who found in their study that formal strategic planning in small banks did not lead to significantly higher performance than non-formal planning.

Concrete evidence in support of Hypothesis 2 came to the fore as a result of the research. The first part of Hypothesis 2 investigated the question whether senior managers in SME's value strategic management as a valuable management tool in their businesses. The respondent's stance towards strategic management were measured by asking their opinion on whether they were spending enough time and energy to manage their businesses from a strategic management point of view as well.

The majority of the respondents (64.6%) indicated that they were not devoting as much time to strategic management as they would like to do. By implication this means that they definitely value strategic management.

The second facet of Hypothesis 2, namely that the general absence of strategic management could be attributed to a lack of time and a lack of skills, was also supported by the research findings. Twenty seven or 56.25% of the respondents said that specifically due to a lack of time, they were not in a position to give the necessary attention to strategic management. Tactical and operational decisions and actions most probably received the most of management's attention.

The second most important reason for not giving enough attention to strategic management in their businesses was because of a lack of skills. Nearly 20% (16.67%) of the respondents indicated that they were unfamiliar with the subject. This is supported by the findings of Waalewijn and Segaar (1993) who found in their study that 23% of the respondents thought that their strategic thinking ability was below par.

The information obtained from the returned research questionnaires thus clearly support Hypothesis 2.

Another interesting factor that was investigated with reference to Hypothesis 2 was the extent to which SME's make use of outside expertise. The fact that so many managers of SME's attribute the lack or absence of effective strategic management in their businesses to a lack of time and skills becomes important if one investigates the use of external experts as a possible solution. Robinson (1982) found that strategic planning enhanced small firm effectiveness when the planning process incorporated the systematic utilization of outsiders. In this study, the same scenario was experienced with only 22.92% of the respondents making use of external consultants. There is, therefore, support for the argument that SME's would increase their performance if they increase the use of external experts in their efforts to manage and plan strategically.

Hypothesis 3 tested one of the key factors or points of discussion regarding the subject strategic management and performance, namely whether size plays an important role in strategic management or not. The main reason that size is such an important and regularly discussed factor when it comes to strategic management and the smaller business, is because most of the strategic management literature focuses on the large, multi-product, multi-divisional firm and not on the small firm or SME's as in the case of this research. According to Schollhammer and Kuriloff (1979) firm size is a critical contingency variable in strategic management research and theory development.

According to Moyer (1982) even the literature aimed at single-industry companies suggests procedures that may discourage the manager who contemplates introducing strategic planning and management into a small organization. Because of the size constraint, many firms in genuine need of strategic planning do not use this management aid and this, according to Powell (1992) gave rise to the fact that size became such an important factor in SME/strategic management research.

From an analysis of the findings that was obtained with the research questionnaires, no definite evidence were obtained to support Hypothesis 3. From the answers obtained, no definite trend or pattern could be established. For instance, no trend could be detected indicating that progressively more completed questionnaires were received from the larger businesses in the sample, nor did a greater number of larger respondents than smaller respondents indicate that according to their opinion, they are giving enough attention to strategic management.

As an example it can be stated that 40% of the size bracket 1 – 25 employees answered in the affirmative to question 13 while only 17% of the size bracket 76 – 100 employees answered in the affirmative to question 13. For all the size categories, however, the size bracket 100+ employees obtained a higher score than the size bracket 1 – 25 employees. From this an assumption can be drawn that there is a greater emphasis on strategic management in SME's who employ 100 and more employees, but no clear evidence came to the fore in support of Hypothesis 3.

The above assumption is supported by the findings obtained by Sexton and Van Auken (1982) in their study about the prevalence of strategic planning in small businesses.

According to Sexton and Van Auken (1982) their study produced evidence to suggest that larger small firms may be more inclined to plan strategically.

Question 10 measured the formality of the strategic management process of the businesses in the sample. In this instance it very prominently came to the fore that the smaller respondents were less formal in their approach to strategic management than the larger respondents. The difference between the 100+ employees-bracket and the 1 – 25 employees-bracket was also much more evident when the formality of their respective approaches to strategic management was measured. A definite trend could be detected in this instance.

Hypothesis 4 stated that the process of strategic management or planning in a SME is more important than the actual plan itself as opposed to large multi-national corporations where strategic management mainly consists of well documented manuals and flow charts.

The data obtained from the research questionnaires clearly support Hypothesis 4. The majority of the respondents strongly supported the notion that the processes associated with the main phases of strategic management is more important as opposed to the smaller number of the respondents that indicated that they would rather prefer their strategic planning efforts to be a formally documented exercise. Table 5.6 clearly illustrates this.

As can be seen from Table 5.6, both those respondents in favour of formal planning and those in favour of the process only, indicated that they are strongly in favour of strategic management itself (86%). It is, however, important to note that in the case of each of the phases of strategic management measured, a larger percentage of respondents indicated that the process is critical.

The support for Hypothesis 4 is confirmed by previous research that also came to the conclusion that for SME's the process of strategic management is more important than to make a very formal exercise out of it. Moyer (1982) concluded that the small firm need not burden itself with a detailed formal planning document, an expensive reporting system, or an avalanche of paper work. This is supported by the findings of Robinson and Glueck (1980) which support the ideas of process informality and secondary emphasis on objectives as key contingencies in effective small firm strategic planning.

It can also, therefore, be stated that more SME's would "utilise" strategic management as an aid if they realise that it need not be a very formal and documented procedure taking up all their time.

CHAPTER 8

SUMMARY AND CONCLUSION

Powell (1992) states that since the origins of the business policy field in the 1950's, researchers have concerned themselves with the attributes and impacts of strategic planning and that this concern has increased with the expansion of modern strategic management research.

As stated by Moyer (1982), at a minimum, the small business that undertake strategic planning will be made aware of where the business is heading in the absence of planning. Sales may fall because customers fail or move to new suppliers; growth products may mature and eventually decline; market share may diminish as new entrants buy their way into the market with lower prices; etc. The complete strategic planning process – a declaration of goals and mission, key-variable analysis and fashioning plans to achieve stated goals, however, should give the business greater control over its destiny.

From the research findings as well as discussions in the previous chapters of the research results, conclusions and findings of work as presented in the literature, the following most important and basic conclusions can be drawn:

- Strategic management does have the potential to benefit SME's, although it can not be stated as a precondition for success.
- SME's that do not plan strategically run a greater risk of ending up in serious financial problems than those SME's that do engage in strategic management and planning.
- The process of strategic management and planning in SME's need not be a very formal one. In other words, it is not necessary for a SME who engages in strategic planning to compile a massive amount of paperwork in order to be successful in its planning efforts.
- It is more difficult for small SME's to manage and plan strategically and it is easier for larger SME's to do so.
- Young or newly established SME's are very risky from an investment point of view, because their chances of not surviving are greater than those SME's who have been successful in bridging those first few uncertain years. This is evident from the fact that newly established SME's do not give much attention to strategic planning, because they literally have to worry about a large number of "other urgent problems" and they do not have the necessary historic information or knowledge of their internal and external environments to base strategic decision making on.
- Older SME's have a history that gives them the necessary foundation to launch their strategic thinking and planning from. Younger or newly established SME's do not have that advantage.
- Strategic planning and management may not guarantee success, but it should improve the odds.

Another very relevant aspect that came to the fore in the research and that is supported by previous research, is the fact that the average managers and/or owners of SME's do not have the knowledge and skills necessary to properly implement and manage strategic planning. This factor also came out very prominently as a result of the research done by Waalewijn and Segaar (1993). Waalewijn and Segaar (1993) state that as a result of their research, they can positively conclude that there is a need for new initiatives for the upgrading of training and courses in the area of strategic management. Waalewijn and Segaar (1993) state that companies would be justified in paying more attention to this training need and allocate more resources for this purpose.

The lack of skills and expertise should also be seen as a gap in the market for professional consultants and financial experts. The author would like to recommend this aspect as a focus for possible future research. Replication of this study for specific industries would also be an important contribution.

Further investigation into process and content dimensions unique to SME strategic management and planning also deserves attention, specifically in a South African environment. Recommendations with guidelines would constitute a large contribution. This is confirmed by Shrader, Mulford and Blackburn (1989) who also recommended, as a result of their research, that future research in the USA should investigate and provide prescriptions for small firm planning practices. Since there are so many SME's and since there are so many failures amongst SME's, strategic planning recommendations would be invaluable, even if only provided then for certain industries as a point of departure.

One of the major problems that was uncovered, specifically during the analysis of the control group and a comparison thereof with the research results as retrieved from the questionnaires, was that many businesses that do take the time and effort to plan, do not implement properly and they do not exercise the necessary control over strategies and plans already implemented.

This specific problem was also highlighted by Shrader, Mulford and Blackburn (1989) who stated that the effects of planning and implementation may not be experienced immediately and may not be readily measurable. The nett effect of this is that many well intended plans are not executed well and are, therefore, not successful. Strategic management and planning will as a result receive the blame were it could actually have been of great benefit.

Another major implication for SME executives concerned with the design of their business's strategic planning system, is that little benefit can be expected from employing a highly formal process. SME's without a very formal planning process performed as well as their formal planning counterparts. This is specifically relevant for the smaller section of SME's.

In conclusion, the following three specific observations can be made as a result of this research, supported by other research as reported in the literature:

First, effective informal planning systems in SME's mainly de-emphasize the need for formal written documentation, reports and activities as a means to de-formalize their strategic planning.
Second, in initiating the planning cycle, minimal emphasis is placed on specification of abstract notions like broad goals, business mission and long-term objectives as a prerequisite to a meaningful planning process. Emphasis on resource evaluation, assessment of capabilities and environmental analysis appear more tangible foci for inaugurating small firm strategic planning.
Lastly, but perhaps also most important, the success of "informal" planners does not mean that less planning is necessary. The saying that no planning is actually planning for disaster, appears to be very true.

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ANNEXURES

Annexure 1: Research Questionaire

The CEO, Managing Director, Owner

Dear Sir,

THE INFLUENCE OF STRATEGIC MANAGEMENT ON SUCCESSFUL SMALL & MEDIUM BUSINESSES

Small and Medium Enterprises (SME's) perform a very important function in the national economy of any country. It is also a recognized fact that the financial (and other) risks involved in managing, owning and/or investing in a small to medium sized business are relatively high compared to that of for instance large and publicly traded companies.

What can be done to relieve this situation in favour of SME's? A lot of research was done concerning this topic in the USA and Europe and it came to the fore that one aspect where SME's are lagging and which is in all possibility a serious contributing factor to the high rate of insolvency's in this sector, is the lack or absence of proper strategic management and planning in their make-up.

Little is known about the South African perspective on this topic and the intended research, which this questionnaire forms the basis of, will endeavor to shed some light on the South African situation.

Please complete the following questionnaire as objectively and thoroughly as possible and return it in the enclosed envelope **before 31 March 1998**. To complete the questionnaire should take you **no longer than 20 minutes**. Due to the fact that Strategic Management is an aspect of business management that is primarily the responsibility of Senior Management, it is of importance that the CEO, Managing Director, Senior Manager, Owner, etc. complete this survey. Should you wish to discuss the research/topic, please feel free to contact me on 021-5570796 (all hours).

Confidentiality and anonymity is guaranteed. Your assistance will be greatly appreciated.

Yours sincerely,

J.P. le Roux (Researcher)

Prof. André Slabbert (School of Management: Cape Technikon)

Because of your assistance on this project, you are entitled to a copy of the findings of the research. If you require a copy of the results, please inform us accordingly.

Die vraelys is ook in Afrikaaans beskikbaar. Kontak my gerus by bovermelde nommer indien u 'n Afrikaanse vraelys sou verlang.

SURVEY : STRATEGIC MANAGEMENT : SME's

1. How many **full-time employees** do you have in your employ? ☐

2. How many **levels of control** exist in your organization? ☐
("Levels of control" refers to the number of hierarchical levels that exist in the business. It a concept closely related to the structure of organizations.)

3. How is the business/organization structured - **form of ownership**?

- Sole Proprietorship ☐
- Partnership ☐
- Close Corporation ☐
- Company ☐
- Trust ☐

4. For **how long** has the business been in **existence**?

1 - 3 years ☐

4 - 6 years ☐

6 - 9 years ☐

10+ years ☐

5. Which of the following **business functions** formally exists in the organization as an independent and autonomous department, rendering services to customers and the business?

- Finance ☐
- Sales and Marketing ☐
- Research and Development ☐
- Human Resources ☐
- Production ☐

5.1 Does your business, on a regular basis, make use of the **Internet** in any way?

yes	no

5.2 If you have answered "Yes" to Question 5.1, please indicate for what **purpose** do you mainly use the Internet.

____

____.

6. Does your organization have a **formal and written Business Plan**?

yes	no

7. If you have answered "Yes" to Question 6, please indicate for what **purpose.** *(Please tick one or more appropriate options.)*

- To obtain finance at a financial institution. ☐
- For the purpose of "presenting" the business to prospective buyers. ☐
- Business Plan was developed to assist senior management in managing the organization. ☐

8. Which of the following aspects are covered in the **Business Plan**?

	INCLUDED	EXCLUDED
Mission		
Objectives		
Strategies		
Policies		
Description of Senior Management		
Description of Key Personnel		
Structure		

Culture		
Key Resources		
Break-even levels		
Pro Forma financial statements		
Time Schedules		

9. Does your organization use **external consultants/accountants** in developing and managing the business plan?

yes	no

10. On a scale of 1 - 5, indicate whether you regard the **planning process** prevalent in your organization/business as **informal** or **formal.**

Informal = no formal written document; no key managers specifically responsible; none or limited research conducted prior to development of plan; no specific dates for implementation of changes or action plans.

Formal = formal written document; CEO and other senior manager(s) specifically responsible; detail scanning of environment took place prior to development of plan; specific performance criteria; specific measurement instruments as part of plan.

Informal ← 1 — 2 — 3 — 4 — 5 → **Formal**
(please encircle your choice)

11. Do you and/or the senior management of the business analyze, specifically and as part of the formal planning process, the **Strengths and Weaknesses** (aspects such as structure, culture and resources inherent to the business) of the business?

yes	no

11.1 If yes, **how often** do you repeat this exercise? *(Tick choice)*

Monthly	
Quarterly	
Annually	
2 Yearly	
3 Yearly	
One-time exercise	

12. Do you and/or the senior management of the business analyze, specifically and as part of the formal planning process, the **Opportunities and Threats** in the external environment that you operate in?

yes	no

12.1 If yes, **how often** do you repeat this exercise? *(Tick choice)*

Monthly	
Quarterly	
Annually	
2 Yearly	
3 Yearly	
One-time exercise	

13. Do you (CEO/Manager) believe that you and your senior management are devoting enough time and energy to properly manage the business from a **strategic management** point of view?

yes	no

13.1 If your answer to question 13 is "No", please indicate which of the following factors are mainly responsible for the **lack of strategic management.**

Lack of time and more important issues to attend to	
Business operation is too small to apply strategic mngt	
Cannot afford to appoint expert/consultant	
Unfamiliarity with strategic management and planning	
No necessity for strategic management to date	

Other reasons than the above mentioned: ______________________________

____.

14. If the business does have a **formal written plan** in place, spanning **more than 1 year** into the future, please indicate which of the following element(s) is/are addressed in that plan.

- Analysis of Internal Situation *(Culture, Structure and Resources)*

yes	no

- Analysis of External Situation *(Factors outside the organization that impact on the organization's performance or future performance)*

yes	no

- Strategy Formulation *(Developing a Mission, Objectives, Strategies and Policies as a result of the Internal- and External Analysis above)*

yes	no

- Strategy Implementation *(This element entails the development of Practical Programs - procedures and processes - with Budgets to support it, that will effect the implementation of Formulated Strategies)*

yes	no

- Evaluation and Control *(Existence of instruments/standards to measure performance with subsequent feedback to the process in order to better/adjust/repeat/rectify the whole planning process.)*

yes	no

15. How do you/senior management **measure** the **performance** of your business? *(Which tool do you use?)*

	Yes	No
Return on Investment		
Return on Assets		
Nett Profit before Interest and Tax		
Nett Profit after Interest and Tax		
Percentage growth in sales/turnover		
Number of complaints received - customers		
No specific measurement		

If you mainly rely on any other form of measuring the performance of your business, please give a brief description thereof: ______________________________

____.

16. **How often/when** do you/senior management **measure** the **performance** of the business or organization? *(Please tick most frequently used option.)*

Monthly	
When we experience problems or fierce competition.	
End of the financial year.	
According to the schedules or intervals as indicated in our Strategic- or Business Plan.	

17. Do you believe (your own opinion) that the application of Strategic Management principles and a thorough planning process based thereon will/already did **improve the performance** of your business?

yes	no

18. Please indicate the **annual turnover** that the business was able to generate during:

1994	**1995**	**1996**	**1997**

18.1 Please indicate the **expected/budgeted annual turnover** that the business will generate in:

1998	1999	2000

19. What percentage of the **products or services** that the business currently trades in/manufactures/delivers will still be traded in/manufactured/provided **in the year 2000?** *(please encircle your choice)*

20% 40% 60% 80% 100%

20. What percentage of your business's **current main competitors** will still be competing against you in 2003? *(please encircle your choice)*

20% 40% 60% 80% 100%

21. Name the five most important **factors/forces that will influence the business** the most in the next three years that you do not have any control over?

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

22. Do you think that the **structure** of the business *(refer to questions 2, 3 and 5 above)* **sufficiently supports** the **Business Plan** in order to ensure success in the next three to five years?

Not Sure	
Yes	
No	
Will need to adapt structure	

23. Do you/senior management develop a **detailed budget** for the business at the beginning of each financial year?

yes	no

23.1 Do you **compare actual financial results achieved** with those financial results that you set out to achieve in the budget?

yes	no

23.2 If you have answered "Yes" to Question 23.1, please indicate the frequency of comparing **actual financial results** with those **forecasted** in budgets.

Monthly	
Quarterly	
Annually	

24. In your opinion, is there a **relationship** between **Strategic Planning** and the **Financial Performance** of your business? *(Please tick most appropriate option)*

Yes, there is a definite relationship between Financial Performance and Strategic Planning in the business.	
No, there is not a definite relationship between Financial Performance and Strategic Planning.	
It is difficult to establish whether such a relationship exists.	

STRATEGIC MANAGEMENT MODEL - HUNGER & WHEELEN