Strategic Planning and Small Firm Growth: An Empirical Examination

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Strategic thinking is important for small firms in the time of global competition, technological change and increased dynamics in markets. Even if many entrepreneurs do not formulate business plans, the strategic planning and systematic decision-making can be considered a key determinant of survival and success of small firms. The paper examines the relationship between strategic planning and small firm growth in terms of empirical analyses that include various strategic planning elements, which have not been given enough attention in past research. Seven hypotheses on the relationship between strategic planning and growth are developed and empirically tested by using data collected via questionnaire from 114 Slovenian smaller firms. The study has practical implications. Entrepreneurs need to be aware that strategic planning practices, processes and techniques can be beneficial for growth of the firm. In order to enable their firms to grow, entrepreneurs may like to consider exactly formulating vision and strategy, incorporating the elements of internationalization and networking in the firm vision, focusing on growth, profit, and market, among strategic analysis techniques paying special attention to analysis of market and competition, and exactly formulating generic business strategies. All these strategic planning efforts need to be reinforced by practices that follow the key growth and market orientations, and have company-wide support. The key implication of this study for research is that the assessment of the relationship between strategic planning and small firm growth needs to be done across various elements or dimensions.

Introduction

Strategic thinking has become a must for entrepreneurs in the time of global competition, technological change and increased dynamics in markets. As propagated by leading entrepreneurships textbooks (for example, Stevenson et al. 1998; Hisrich and Peters 2001; Timmons and

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Spinelli 2003), the development of a business plan is an important element in the success of the entrepreneurial venture. However, most entrepreneurs and small businesses do not base their success on business plans, because they tend, to a large extent, not to formulate them (Bhide 1994). Despite these business plan formulation practices, strategic planning and systematic decision-making can be considered a key determinant of the survival and success of small firms (Zimmerer and Scarborough 1996). Yet, the relationship between strategic planning and small firm growth in terms of empirical analyses that would include various strategic planning elements has not been given enough attention in past research. In this paper, we propose that strategic planning can be considered an important predictor of small firm growth. In what follows, hypotheses on the relationship between strategic planning elements and small firm growth are developed, and the findings of empirical analyses are presented and discussed.

Theory and Hypotheses

Strategy can be defined as an action performed by the firm in order to achieve its business objectives (Wickham 1998). Strategy can be seen as a pathway to move a concept or an idea from the inventive state to the actual positioning in a competitive environment (Ireland 2001) or as a roadmap to the planned result (Thompson and Strickland 2001). Large and small firms act on the basis of a business theory, which is formed from a group of assumptions on what business the firm is in, what its objectives are, how it defines business results, which its customers are, what they value, and for what they are willing to pay (Drucker 2001). The role of strategy is to put the business theory in action and help the firm to achieve desired results despite the environmental unpredictability. Strategy helps the firm in the purposeful search for opportunities (Drucker 2001). Overall, strategy forms a basis for success of the firm (Baker, Addams, and Davis 1993; White 1998; Besanko, Dranove, and Shanley 2000).

Growth is an important performance element and success measure in entrepreneurship. Our main thesis is that strategy is central and beneficial for business success of the firm in general, and for firm growth in particular. In past research, Miller and Cardinal (1994) found a positive relationship between strategic planning and firm profitability and growth. In the following paragraphs we develop specific hypotheses on the relationship between strategic planning and small firm growth.

MISSION, VISION, AND OBJECTIVES

Mission and vision are crucial elements of strategic management. The difference between vision and mission is in its time component; mission determines what the company does, whereas vision shows what the company will become and do in the future (Thompson and Strickland 2001). Visions can be considered sources of energy for achievement of formulated objectives (Thompson and Strickland 2001). Vision, mission and strategies are interconnected elements of entrepreneurial perspective; together they turn the entrepreneur's wish for a positive change into a managerial tool for achievement of that change (Wickham 1998).

Ambitious entrepreneurs who manage growth firms form an intensive and strong vision about the value they can create (Ireland 2001). Even if in a small firm the entrepreneur usually acts as a strategic manager taking all strategic and operative decisions (Hunger and Wheelen 1996), strategic vision forms a basis for strategy development and strategic planning. In order for the firm to grow, the entrepreneur needs to formulate an exact, clear mission and vision for his or her firm (Wickham 1998). On the basis of this research we propose the first hypothesis:

Hypothesis 1: Growth firms will have more exact mission and vision statements than non-growth firms.

In addition to the company's vision, growth will be reinforced by a strategic focus on market, growth and profits. Indeed, planning of corporate or business strategy needs to be centered around the market, product and service (Hunger and Wheelen 2001). Therefore, we propose the following hypothesis:

Hypothesis 2: Growth firms will be more driven by vision (2a), growth and profit focus (2b), and market focus (2c) than non-growth firms.

Vision and objectives are the bases of strategies and strategic planning. For an entrepreneur it is beneficial to have a clear vision, high and growth-oriented objectives, and a belief that he or she can achieve the objectives (Baum, Locke, and Smith 2001). In order to be successful and to grow, the firm needs to formulate high, optimistic, growth-oriented objectives (Wickham 1998). In addition to growth objectives, other objectives (financial or non-financial, personal or non-personal) may play important roles in actual achievement of small firm growth. Among multiple objectives, two objectives can be particularly important for firm growth: internationalization, and innovation/quality. The importance of internationalization for growth has been discussed, for example, in the international entrepreneurhip literature (for example, see reviews by McDougall and Oviat 1997; Antoncic and Hisrich 2000a; Zahra and George 2002), whereas the importance of innovation and quality for growth has been given a lot of attention in the strategic innovation (for example, Tushman and Anderson 1997) and corporate entrepreneurship research (for example, Covin and Slevin 1986; Zahra 1991; 1993; Antoncic and Hisrich 2000b; 2001). Thus, we propose a positive relationship between growth, internationalization and innovation/quality objectives and actual firm growth:

Hypothesis 3: Growth firms will place higher emphasis on objectives of growth (3a), internationalization (3b), and innovation and quality (3c) than non-growth firms.

STRATEGIES

Successful small firms tend to a large extent to use advanced planning and activity analysis (Zimmerer and Scarborough, 1996). Strategic orientation can be considered a driver of strategy formulation; a strategically oriented entrepreneur will pursue opportunities regardless of resources under his or her control, whereas a strategically not-oriented entrepreneur will limit his or her activities by the resources that are currently under control (Sahlman et al. 1999). Therefore, we expect a positive relationship between strategy formulation and firm growth, and propose the following hypothesis:

Hypothesis 4: Growth firms will place more emphasis on strategy formulation than non-growth firms.

Effective strategies are usually based on strategic analyses of the external and internal environment of the firm (Thompson and Strickland 2001). Entrepreneurs can benefit by using strategic management tools and techniques, such as: market analysis, SWOT analysis, strategy development, resource allocation plans, development of business, action, and financial plans, and in addition, a crisis plan (Sahlman et al. 1999). Thus, we expect a positive relationship between the use of strategic analysis techniques and firm growth:

Hypothesis 5: Growth firms will use strategic analysis techniques to a higher extent than non-growth firms.

The value of strategic planning for firm performance may lie more in the future orientation and planning practices than in the formal form of a strategic plan (Hunger and Wheelen 2001). Small firms in particular tend to plan informally and not on a regular basis. Strategic planning can be beneficial for small firm performance, because it forces the entrepreneur to think about open business questions and search for solutions, and also encourages the entrepreneur's learning and making improvements (Wickham 1998). Strategic planning is a process that helps to forecast the future and prepare for the future, and can be beneficial for firm growth (Zimmerer and Scarborough 1996). The use of strategic planning practices can be beneficial for growth, so we propose the following hypothesis:

Hypothesis 6: Growth firms will use strategic planning practices to a higher extent than non-growth firms.

Porter's (1980) generic competitive strategies (price leadership, differentiation, focus/niche strategy) are often considered the basis for growth strategies of firms in general (Zimmerer and Scarborough 1996; Hunger and Wheelen 2001), and of small firms in particular, because small firms tend to be less diversified than larger firms, and many small firms are likely to be in the single business firm form. We expect that also at the level of business strategy formulation growth firms will tend to be more specific than non-growth firms:

Hypothesis 7: Growth firms will have more specified generic business strategies than non-growth firms.

Methods

Methodology will be discussed in terms of the measurement instrument, sampling, and data analysis.

MEASUREMENT INSTRUMENT

A questionnaire was designed on the basis of theory in order to acquire data for hypotheses testing. The respondents (managers) were asked to write the vision, long-term objectives, and mission for their firm. They were asked to choose up to three factors that had the strongest impact on the strategy formulation of their firm from a list composed of eight items (1 – Vision and objectives of the entrepreneur or the entrepreneurial team, 2 – The entrepreneur's wish for achievement of planned growth and higher profits, 3 – Opportunities in the market, 4 – Imitation of other firms and competitors, 5 – Advice and initiative of outside consultants, 6 – Requirements of financial institutions, 7 – Education of the entrepreneur, 8 – Other). In order to acquire information on the strategy formulation emphasis, the respondents were given the choice of three possible answers (1 – very precisely, 2 – approximately, 3 – no) to the question whether their firm has a formulated long-term way – strategy – on how to achieve the objectives, vision, and mission. The question on strategic analysis techniques was phrased in a way that the respondents answered a question about the basis of the decision for the strategy their firm follows; they were given a possibility to select among five answers (1 – Analysis of market and competition, 2 – Analysis of internal capabilities of the firm, 3 – Analysis of the overall business of the firm (internal and external factors), 4 – Feeling-based (intuition of the entrepreneur), 5 – Other). Questions on strategic planning practices of the firm included thirteen Likert-type items with scales from 1 (totally disagree) to 5 (totally agree); the item contents are:

1. knowledge about customers and their needs,
2. orientation to grow and increase profitability,
3. knowledge about own strengths and weaknesses,
4. awareness of own competitive advantages,
5. knowledge about opportunities and threats in the market,
6. non-utilized resources and capabilities,
7. achievability of long term objectives of the firm,
8. planning of business operations for the future,
9. all employees oriented towards the common goal,
10. strategic planning key for the company success,
11. clear vision about the future, known to all people in the firm,
12. actual formal business plan, as a basis for business operations,
13. prepared strategic plan.

Specification of a business strategy of the firm was assessed by asking a question based on Porter's (1980) generic strategy typology (cost leadership, differentiation, and focus/niche strategy). The respondents were asked to check the items which were characteristic for their firm (1 – provides on the market products/services with lower prices than competitors, 2 – provides on the market products/services that are different, better than the competitive ones, 3 – sells products/services to a specific group (segment) of customers). Control varaiables were also collected (industry, firm size, growth, profitability).

SAMPLING AND DATA ANALYSIS

The data were collected on the basis of stratified sampling using two groups of smaller firms (up to 250 employees) in Slovenia. The first group (stratum) were 300 growing firms, which were randomly selected from the list of the 500 fastest growing firms in Slovenia published annually by the Slovenian business journal *Gospodarski vestnik.* The second group (non-growth) included firms with annual growth from –5% to +5%, from which 300 firms were randomly selected. Various industries were included in the two samples, with the exception of non-profit firms. The questionnaire was forwarded by e-mail to the selected 600 firms.

The response rate was 19% (114 firms provided answers, of which 52 growth-firms and 62 non-growth firms). Growth firms of the sample were – in comparison to the non-growth firms – somewhat bigger, more involved in production and trade industries, similar in profitability, and faster in growth (see sample characteristics in Table 1).

Answers on the open-ended questions about vision, objectives, and mission were content analyzed, resulting in nine key categories:

1. fast growth (in this category were grouped firms that forecasted aggressive, fast growth, or substantial increase in market share and profits);
2. moderate – limited growth (expressed sales or market growth orientations, but expected moderate, stable growth or geographically limited growth – to a region or a small economy of Slovenia);
3. internationalization (orientation to expand to foreign markets);
4. innovation and quality (improvements in quality and innovation of products or processes);
5. networking (orientation into connections, contact relations, and business collaboration);
6. e-business (orientation into electronic commerce);
7. retention of size or survival (orientation into retainment of status quo and survival,
8. no vision/objectives, and
9. other (not classified in the first eight categories).

The hypotheses were tested by comparing the means of the variables between the growth group and the non-growth group by using univariate and bivariate data analysis in the SPSS statistical package.

Table 1: Sample characteristics

	Growth Firms ($n = 52$)	Non-Growth Firms ($n = 62$)
Firm Size (no. of employees)		
9 or less	29%	73%
10 to 19	18%	12%
20 to 49	41%	12%
50 or more	12%	3%
Industry		
Production	36%	27%
Trade	25%	15%
Business Services	19%	37%
Financial Services	2%	8%
Information Technology	6%	3%
Transportation	2%	5%
Other	10%	5%
Profitability (average ROS *in last three years)*	Mode 6–19% (42.3% of firms)	Mode 6–19% (51.6% of firms)
Growth (average growth in no. of employees)		
0% or less	11.5%	37.1%
1 to 10%	65.4%	56.5%
11% or more	16.2%	0.0%

Findings

Hypothesis 1 stated that growth firms would have more exact vision and mission statements than non-growth firms. On the one hand, 84.6% of entrepreneurs of growth firms actually wrote down their company vision, whereas in the non-growth firms group this percentage was lower (69.4%). This is in line with Hypothesis 1. On the other hand, contrary to the hypothesis, mission statements were reported by 61.5% growth firms and 71.0% non-growth firms (very exact mission statements were given by 21.2% growth firms and 32.3% non-growth firms). Thus, for Hypothesis 1 we attained mixed results. This may be due to the fact that growth firms may be more inclined to express their vision instead of their mission because they can be more future oriented, whereas non-growth firms may be more focused on what they are actually doing.

Hypothesis 2 stated that growth firms would be more driven in their strategy formulation by vision (2a), growth and profit focus (2b), and

Table 2: Strategy formulation drivers

Strategy Formulation Drivers	1	2
Vision and objectives of the entrepreneur or the entrepreneurial team	70.2%	66.7%
The entrepreneur's wish for achievement of planned growth and higher profits	74.5%	58.3%
Opportunities in the market	55.3%	41.7%
Imitation of other firms and competitors	17.0%	25.0%
Advice and initiative from outside consultants	4.3%	8.3%
Requirements of financial institutions	4.3%	2.1%
Education of the entrepreneur	2.1%	20.8%
Other	0.0%	4.2%

1 – Growth firms 2 – Non-growth firms

market focus (2c) than non-growth firms. A comparison of drivers of strategy formulation between growth and non-growth firms is displayed in Table 2. Some differences became visible. Growth firms had, in comparison to non/growth firms in strategy drivers, a slightly higher percentage of vision of the entrepreneur or entrepreneurial team (70.2% vs. 66.7%), more importance given to the entrepreneur's wish for achievement of planned growth and higher profits (74.5% vs. 58.3%) and to market opportunities (55.3% vs. 41.7%), and less emphasis on imitation and education. These results are in support of Hypotheses 2b (growth and profit focus) and Hypothesis 2c (market focus), and in weak support of Hypothesis 2a (vision).

Hypothesis 3 stated that growth firms would place higher emphasis on objectives of growth (3a), internationalization (3b), and innovation and quality (3c) than non-growth firms. When visions of firms were analyzed, interesting differences between growth and non-growth firms were discovered (see the first three columns in Table 3). Growth firms were found to express in their visions – more than non-growth firms – elements of growth (fast growth: 5.8% growth firms vs. 1.6% non/growth firms; moderate growth: 21.2% vs. 14.5%; retention of size: 11.5% vs. 16.1%) and internationalization (19.2% vs. 11.3%), but not innovation and quality (15.4% vs. 19.4%). In addition, the two groups differed in terms of networking (9.6% vs. 0.0%), but not in terms of e-business. When objectives were compared (see the last three columns in Table 1), some difference was found for the growth element (fast growth 7.7% vs.

Table 3: Elements of visions and objectives of growth and non-growth firms

Vision	1	2	Objectives	1	2
Fast growth	5.8%	1.6%	Fast growth	7.7%	1.6%
Moderate growth	21.2%	14.5%	Moderate growth	26.9%	25.8%
Retention of size	11.5%	16.1%	Survival	1.9%	3.2%
Internationalization	19.2%	11.3%	Internationalization	11.5%	9.7%
Innovation and quality	15.4%	19.4%	Innovation and quality	23.1%	19.4%
Networking	9.6%	0.0%			
E-business%	1.9%	1.6%	Undecided	3.8%	11.3%
No vision	0.0%	4.8%	No objectives	0.0%	3.2%
No answer	15.4%	30.6%	No answer	25.0%	25.8%

1 – Growth firms 2 – Non-growth firms

1.6%, moderate growth 26.9% vs. 25.8%), and very small differences for internationalization (11.5% vs. 9.7%) and innovation and quality (23.1 vs. 19.4). In sum, these results are in some support of Hypotheses 3a (growth) and 3b (internationalization), but much less of Hypothesis 3c (innovation and quality).

Hypothesis 4 stated that growth firms would place more emphasis on strategy formulation than non-growth firms. In our sample 90.4% of growth firms reported to have a formulated strategy for attainment of their objectives, vision, and mission (13.5% very precisely and 76.9% approximately). In contrast, the percentage of non-growth firms that have a formulated strategy was lower – 79.1% (9.7% very precisely, 69.4% approximately). These results are in support of Hypothesis 4.

Hypothesis 5 stated that growth firms would use strategic analysis techniques to a higher extent than non-growth firms. Percentages of strategic analysis techniques that were used by firms in our sample for use in strategic planning are displayed in Table 4. The most used technique in growth firms was found the analysis of market and competition (36.2%), whereas non-growth firms relied more on the analysis of internal capabilities (37.5%). The firms somewhat differed also in the use of the analysis of the overall business (internal plus external factors): 21.3% of growth firms and 27.1% of non-growth firms. In addition, about 30% of all firms based their strategic planning on the intuition of the entrepreneur. Findings concerning Hypothesis 5 are mixed at best, but they indicate that particularly analysis of market and competition can be beneficial for small firm growth.

Table 4: Strategic analysis techniques*

Strategic analysis techniques	1	2
Analysis of market and competition	36.2%	27.1%
Analysis of internal capabilities of the firm	29.8%	37.5%
Analysis of the overall business of the firm (internal and external factors)	21.3%	27.1%
Feeling-based (intuition of the entrepreneur)	29.8%	31.3%
Other	0.0%	0.0%

* Multiple answers were allowed – the percentages do not sum up to 100
1 – Growth firms 2 – Non-growth firms

Hypothesis 6 stated that growth firms would use strategic planning practices to a higher extent than non-growth firms. As shown in Table 5, growth firms placed on average more emphasis on all analyzed strategic planning practices than non-growth firms, with the exception of one item (awareness about strategic planning being key for the company's success). However, statistical comparisons of means indicated only some differences to be statistically significant. Significant differences were found for: orientation to grow and increase profitability ($\chi^2 = 5.56$, sig. 0.006). knowledge about opportunities and threats in the market ($\chi^2 = 4.53$, sig. 0.016), and all employees oriented towards the common goal ($\chi^2 = 6.20$; sig. 0.044). Thus, support for Hypothesis 6 can be considered mixed.

Hypothesis 7 stated that growth firms would have more specified generic business strategies than non-growth firms. As indicated in Table 6, all three generic business strategies (differentiation, cost leadership, and focus/niche) got somewhat higher percentages of answers as being characteristic for growth firms than for non-growth firms. These findings are in support of Hypothesis 7.

Discussion

This paper provides evidence that strategic planning does matter in firm growth. Vision is an important element of strategic management, and – as shown in this paper – exact formulation of the vision statement and strategy formulation can be beneficial for small firm growth. Interestingly, our findings also indicate that the formulation of vision (future orientation) can be more important than formulation of mission (current orientation) for firm growth; we also found evidence that growth

Table 5: Strategic planning practices (average values*)

Strategic planning practices – items	1	2
Knowledge about customers and their needs	4.55	4.40
Orientation to grow and increase profitability	4.53	4.08
Knowledge about own strengths and weaknesses	4.52	4.34
Awareness of own competitive advantages	4.50	4.35
Knowledge about opportunities and threats in the market	4.45	4.05
Non-utilized resources and capabilities	4.35	4.16
Achievability of long term objectives of the firm	4.29	4.03
Planning of business operations for the future	4.12	3.79
All employees oriented towards the common goal	3.98	3.70
Strategic planning key for the company success	3.86	3.97
Clear vision about the future, known to all people in the firm	3.75	3.27
Actual formal business plan, as a basis for business operations	3.41	3.05
Prepared strategic plan	2.86	2.48

* Answer range 1 (totally disagree) to 5 (totally agree)
1 – Growth firms 2 – Non-growth firms

Table 6: Generic strategies*

Generic strategy	1	2
Differentiation strategy (different, better products/services)	73.1%	64.5%
Cost leadership strategy (lower price)	26.9%	21.0%
Focus/niche strategy (focus on a specific customer segment)	59.6%	56.5%

* Multiple answers were allowed – the percentages do not sum up to 100
1 – Growth firms 2 – Non-growth firms

firms expressed in their visions all elements, except one – learning organization, which is more difficult to define, of the winning strategies for the 21st Century as defined by Hitt et al. (2001). These elements are: internationalization, innovation and quality, networking, and to some extent also e-business. Contrary to the expectation of a difference, the innovation/quality element was found important for both growth and non-growth firms.

In addition to vision, growth and profit focus and market focus have also been shown to be crucial strategy formulation drivers of small firm growth. We obtained also one puzzling result: about one fifth of non-growth entrepreneurs reported education of the entrepreneur as a strategy formulation driver. This may mean that non-growth entrepreneurs recognize the importance of education for the development of their companies, but that the efficiency of management and entrepreneurship education may be very low, or it may mean that non-growth entrepreneurs simply lack fresh ideas and rely too much on the information obtained in different educational contexts.

We did not provide enough evidence to say that growth firms use strategic analysis techniques to a higher extent than non-growth firms, but our findings suggest that analysis of the market and competition can be particularly beneficial for small firm growth. We discovered that about 30% of entrepreneurs of our sample base their decision on intuition; this finding is in line with the findings of Bhide (1994) for the US entrepreneurs.

Finally, we provided some empirical evidence that the extent of use of strategic planning practices (such as orientation to grow and increase profitability, knowledge about opportunities and threats in the market, and the orientation of all employees towards the common goal) and generic strategies (differentiation, cost leadership, and focus/niche strategy) can be predictive of small firm growth. Our findings – which are that small firms tend to rely on differentiation and focus/niche business strategy more than on cost leadership strategy – seem to be the result of a common characteristic of small firms, which in comparison to large firms have lesser resources and lesser opportunity and capability to compete on the basis of economies of scale.

A key implication of this study for research is that the assessment of the relationship between strategic planning and firm growth needs to be conducted across various elements or dimensions. The study has practical implications. Entrepreneurs need to be aware that strategic planning practices, processes and techniques can be beneficial for growth of the firm. In order to enable their firms to grow, entrepreneurs may like to consider exactly formulating vision and strategy, incorporating the elements of internationalization and networking in the firm vision, focus on growth, profit, and market; among strategic analysis techniques pay special attention to analysis of market and competition, and exactly formulate generic business strategies. All these strategic planning efforts need to be reinforced by practices that follow the key growth and market orientations, and have company-wide support.

The study may have some limitations, and might suggest some future research opportunities. First, the data were collected with perceptual and predominantly single-item measures from one respondent per firm. Since the focus was on small firms, the respondent – usually the owner-manager – can be considered a key person for providing strategic planning information. Using multiple respondents and constructs of the elements of small business strategic planning, and combining perceptual measures with behavioral and secondary/financial data, may increase reliability in future research. Second, the generalizability of the findings may be limited because data collection was conducted within one economy – Slovenia. However, even if the Slovenian economy is smaller and lagging in development in comparison to the US and economies of Western Europe, the findings on the basis of Slovenian data may be generalizable, as indicated by previous cross-national comparative studies, for example, in corporate entrepreneurship (Antoncic and Hisrich 2000; 2001) and in business ethics (Bucar, Hisrich, and Glas 2003). Of course, cross-cultural comparisons can reinforce current findings and bring new insights to future research. Third, the focus of the study was predominantly on strategic planning, and did not include other strategic management elements, such as implementation and control issues, which would be of interest for future research.

Conclusion

Strategic planning can be considered important in driving small firm growth. This study has added to the knowledge about the relationship between strategic planning and growth with insights on the importance of strategic planning elements, and has given recommendations for strategic planning-induced growth. Precisely formulating vision and strategy, incorporating the elements of internationalization and networking in the firm vision, focusing on growth, profit, and market, performing analyses of market and competition, precisely formulating generic business strategies, and achieving company-wide support for strategies can all be beneficial for the growth of smaller firms.

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