

Strategic Planning Practices and Challenges: The Case of SMEs in Macedonia

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ABSTRACT

Strategic planning is an important element for companies growth, gaining competitive advantage as well as further development. However, not many scholars have done researches which emphasize the role of strategic planning in small and medium-sized enterprises (SMEs). In Macedonia, SMEs are the major source of the country's potential economic-growth in terms of their contribution toward the creation of employment and overall economic development. This study is about to find out whether and how strategic planning is employed in the Macedonian SMEs, as well as to explore the main characteristics of the strategic planning process. Data was gathered using online questionnaire method and analyzed with standard tools of descriptive statistics. It aims to work as a reference for the business owners and manager to better improve and utilize the strategic planning tools for their future growth.

KEY WORDS: strategic planning, SMEs, competitive advantage

JEL Classification: M1, D22, L21.

POVZETEK

Strateško načrtovanje je pomemben element za rast podjetij, pridobivanje konkurenčne prednosti in nadaljnji razvoj. Vendar pa ni veliko znanstvenih raziskav o vlogi strateškega načrtovanja v malih in srednje velikih podjetjih (MSP). Mala in srednja podjetja v Makedoniji so glavni vir potencialne gospodarske rasti države v smislu njihovega prispevka k ustvarjanju zaposlitve in splošnega gospodarskega razvoja. V raziskavi smo proučevali, ali in kako se strateško načrtovanje uporablja v makedonskih malih in srednje velikih podjetjih ter preučujemo glavne značilnosti procesa strateškega načrtovanja v njih. Podatki so bili zbrani z metodo spletnega vprašalnika in analizirani s standardnimi orodji deskriptivne statistike. Namen je podati usmeritve lastnikom podjetij in menedžerjem za izboljšanje in uporabo orodij strateškega načrtovanja za prihodnjo rast njihovih podjetij.

KLJUČNE BESEDE: strateško načrtovanje, MSP, konkurenčna prednost

1. Introduction

The challenges that companies face nowadays are complex. Lack of resources, cash flow/inflow fluctuations, change in profits, changes in legislation, employee conflicts are just some among many challenges. In order to deal with the challenges, companies should be able to predict them, i.e. predict future fluctuations, needs, challenges as meticulously as possible. Strategic planning is one of the tools available to the companies for that purpose.

Since its introduction in the business world (in the mid-1950s) essentially the largest companies were most focused on strategic planning (Steiner, 1979). However, studies have found existence of strategic planning in SMEs, moreover positive correlation between strategic planning and success of SMEs (Lyles, Baird, Orris and Kuratko, 1993; Schwenk and Shrader, 1993, Rue and Ibrahim, 1998). Contrary to this, there are studies that had shown that most SMEs do not employ strategic planning (Berman, Gordon and Sussman, 1997; Orser, Hogarth-Scott and Riding, 2000; Robinson and Pearce, 2001 and Beaver, 2003). The reason for this may be the fact that SMEs normally maintain a lower level of resources, have more limited access to human, financial and customer capital, and lack a well-developed administration (Karagozoglou and Lindell, 1998; Brush et al., 2001). Having this information at hand it was interesting to explore the level of understanding and appreciation managers and/or owners of SMEs in Macedonia have on the topic.

2. Literature Review

Strategic planning is often regarded as long-term oriented management tool that is used to set long-term priorities, focus, energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward same goals (Haake, 1987; Voigt, 1992). Varied definitions of strategic planning have been suggested in the literature. Huang (2005) defines strategic planning as a complex and participative management technique of scanning the environment and the formulation of mission, vision and strategies in order to improve the performance of the organization, and hence its competitiveness in the market. According to Dincer, Tatoglu and Glaister (2006), the key aspects of strategic planning include the formulation of a mission statement of the enterprise, establishing the objectives, crafting and implementing the strategies, monitoring and controlling the progress in strategy implementation. Strategic planning specifies the basic conditions as well as the scope for future business activities and thereby is a central instrument for strategic management, which in turn, is responsible for the goals and visions (Pearce and Robinson, 2011). Given the role of strategic instruments in large companies and the notion that rational decision-making should prevail in enterprises regardless of size, practitioners and academics alike have recently called for an increased use of strategic planning in SMEs. In this vein, several empirical studies reveal a link between strategic planning and success (e.g., Rue and Ibrahim, 1998; Bracker, Keats and Pearson, 1988; Lyles, Baird, Orris and Kuratko, 1993; Schwenk and Shrader, 1993). Strategic planning and thinking are especially important for small firms to be able to face 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. Many studies suggested by other scholars suggest that if SME's practice strategic planning, they will be able to assess their environment, adjust their strategies, cushion themselves from the dynamic environment, and hence improve their performance (Fogg, 1994; Cassidy, 2006). All the strategic planning components (environmental scanning, mission and vision statement, formality of strategic planning, sources of information about the environment,

strategy evaluation and control, strategy implementation incentives, employee participation in the strategic planning process and the time horizon of strategic planning) need to be enhanced in order to improve their performance. SMEs owners/managers should, therefore, make every effort to practice more strategic planning activities to enhance their competitiveness. However, due to limited resources, SMEs might need to prioritise which strategic dimension to implement. The results have indicated that the three dimensions namely, mission and vision, formality of strategic planning and evaluation and control, are perceived as the most important in business. Therefore, more resources should be allocated to these three dimensions.

According to different practitioners, in the process of strategic planning companies have available wide range of formal strategic planning tools (Schwenk, and Shrader, 1993; Drucker, 2009) such as product life cycle analysis, key performance indicators analysis, swot analysis, PESTILE, benchmarking, Porters five forces, etc., in view of which this paper examines whether Macedonian SMEs use some of the available strategic planning tools or not.

3. Methodology

The main goal of the paper was to explore the attitudes of business owners and managers in the small and medium sized enterprises (SMEs) in Macedonia toward strategic planning. Data was gathered using online questionnaire method and analyzed with standard tools of descriptive statistics. A total of 150 questionnaires were mailed out. From this, the usable returns were 49, giving a response rate of 33%.

4. Obtained Results

In the first part of the questioner the respondents were asked to indicate whether they have strategic plan for their business. The study shows that an overwhelming 94% of the respondents revealed that they did prepare strategic plan for their business. The remaining 6% of the respondents revealed that they did not set any strategic plan for their business. However, for the study, only SMEs that had a written strategic plan were the focus, eliminating those that did not. The data collected showed that 46 out of the 49 respondents (94%) had written strategic plans, i.e. for the subsequent analysis the authors focused only on these 46 returns or SMEs that had a written strategic plan.

The research shows that strategic-planning processes play an important role in strategy development and improving overall performance. That role can be seen in the responses of the 69 percent of respondents who claimed that the strategic planning process played a significant role in developing strategies and were satisfied with the approach of their companies, compared with only 7 percent of the respondents who felt that the process did not play a significant role. The rest responses are split between usually getting good results from it, and sometimes getting bad results, however, this could say more about their abilities to apply it rather than the usefulness of the method.

The survey also shows that there are differences in the nature of the planning cycle in the companies (Figure 1). An interesting observation is that half of the companies, the ones that consider the strategic management to be an effective managing method, usually have a fixed planning cycle. As we move to the companies which have some uncertainty about the effectiveness of the method, we can see that the variable planning cycle is dominating. This

means that even though they have a fixed planning cycle to a certain degree, they usually do not follow the same process or procedure. This can be, although not necessarily, a link as to the effectiveness of their strategic planning.



Figure 1: Planning cycle in the SMEs in Macedonia

In terms of planning horizon, the results of the study indicate that 22% of the respondents stated that business planning in their organization is for less than one year, 72.5% between one and two years and 5.5% between three and five years (see Figure 2). In total about 94.5% of the respondents plan between 1-3 years, this is considered to be short to medium term planning.

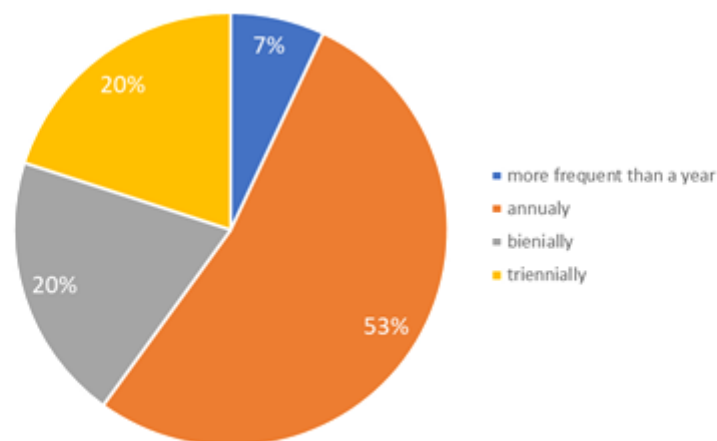


Figure 2: The frequency for strategic planning activities of SMEs in Macedonia

Empirical evidence shows that in most SME's only business owners are involved in strategic planning process or the whole process is attributed to only one person (63%), where 33% of the responses indicated that top managers were involved mainly within the process, and only an insignificant percentages, 3%, have a separate planning department that develops the strategy and 1% where managers from all levels are involved in planning.

The respondents were asked to indicate what is the overall objective of the strategic planning process for their business. The results are presented in Figure 3 below. The top three

objectives of the strategic planning process for the Macedonian SMEs, as results indicate, are to ensure an appropriate organizational structure (20%), develop strategies (16%), and achieve sustainability (16%), while the lowest ranking one is to ensure survivability (7%). Similarly, the top three outcomes that are expected to be delivered from the strategic process are to define how the future organization should look like, define the business strategies, and to achieve a common view among managers of the corporation, while the lowest ranking one is to achieve a common view among staff and managers.

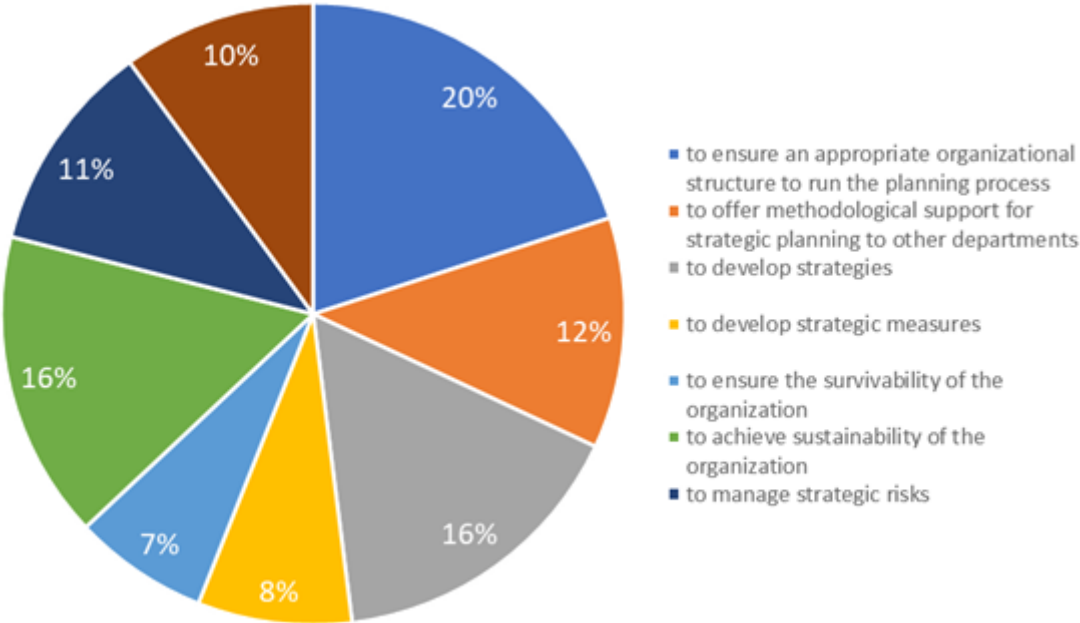


Figure 3: Overall objective of the strategic planning process in SMEs in Macedonia

The respondents were asked to indicate whether their business had a documented mission statement. The study results show that only 15 of the respondents (33 %) indicated that they had a documented mission statement for their business. However, 67 % of the respondents revealed that they did not have a documented mission statement. The results paint an interesting picture showing that Macedonian SMEs do not have in place business missions to guide their operations.

Empirical results show also that majority of SMEs do not use strategic planning tools. For instance, 59.1% stated that they do not use any tools, followed by 20% who use various tools. A combination of tools refers to two or more strategic planning tools. The findings also reveal that 15.9% use financial forecasts or budgets. A few respondents (4.9%) stated that they use SWOT analysis though they did not refer to it as such.

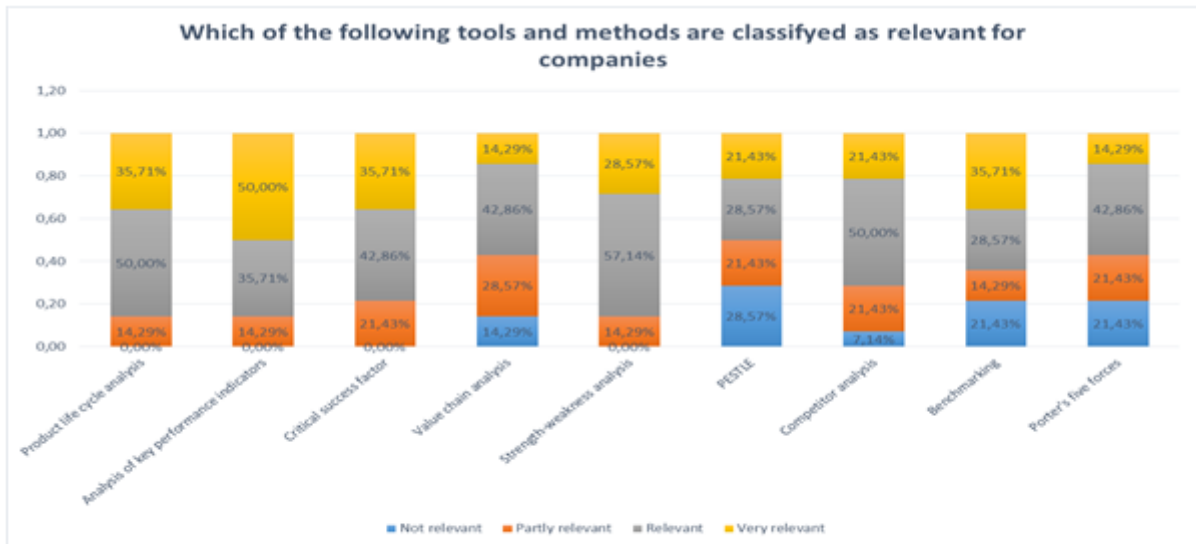


Figure 4: The use of strategic planning tools and methods in SMEs in Macedonia

Results of this study indicate also that there are several problems which SME's are facing in the process of strategic planning. According to the results, 22 out of 46 (48%) of the respondents selected participation, contribution and support from all employees making it the dominant factor, followed by the insufficient knowledge of planning process, which was selected by 10 out of 46 respondents (22%) and lack of realism and conciseness in plans, ranking as third.

5. Discussion and Conclusion

Extent literature indicates that formal strategic planning improves business performance as it involves deriving a game plan that enables SMEs to anticipate and respond to the turbulent market by arranging their resources and capabilities accordingly. The first goal of this study is to underline the importance of strategic planning in order the company to thrive. As such, this study investigates the status of strategic planning by SMEs in Macedonia and also investigates the perceived value of strategic planning by SME owners and managers, and the extent of planning as well as identifying the barriers that prevent effective strategic planning. A significant amount of the business owners and managers in studied SMEs consider strategic planning as an important mechanism for the development of their business strategies and overall performance. The business owners and managers of SMEs perceive the strategic planning approach having significant impact on achieving their organizational objectives and increasing their firm's performance. However, the strategic planning processes in Macedonian SMEs should be carried out in a more formal pattern simultaneously requiring better understanding of strategic planning tools and planning methodologies and increased participation, contribution and support from all employees. Last, but not the least, with regard to the very little research done in this area for Macedonian small and medium sized enterprises SMEs, this paper gives a modest contribution to the topic.

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