

# **The Relationship between Strategic Planning and business Performance: An Empirical Study of Manufacturing SMEs in Western Province in Sri Lanka**

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## **Abstract**

*The economic growth of developing countries can be sustained by the expansion of private sector, as they are the engine of growth. As a consequence, it is important to accelerate the growth of SMEs in order to gain sustainable development in this era. Many scholars have argued that the strategic planning is one of the salient factors which contribute to the performance of SMEs. However the recent literature provides contradictory findings about the relationship between strategic planning and performance. Based on these evidences, the main objective of the study was to examine the relationship between strategic planning and performance of SMEs. More importantly the study focused on strategic planning process where, there is a dearth of studies which have concentrated on strategic planning process. Specific objectives include to identify the level of involvement in the process of strategic planning and to examine difficulties faced by SMEs in engaged in strategic planning process. Data were collected through personally attended structured questionnaire distributed among 275 owner/managers of SMEs in Western province. Both descriptive and inferential statistics techniques were used to analyze the collected data. The findings revealed that the SMEs are moderately engaged in strategic planning process and there is a positive relationship between strategic planning and business performance.*

## **1. Introduction**

### **1.1 Background**

Transformation of the agricultural industries into industrialization during the period of 1950s and 1960s laid the foundation toward the economic development in the world. During this period greater emphasis was placed on large enterprises and productivity while abandoning

the Small and Medium sized Enterprises (SMEs). SMEs were emerged in the era of 1970s and 1980s as new rescuers of industrialized economies. With that the scholars and researchers also began to concentrate on the various aspects of SME behavior. As a result a substantial emphasis has been made to the literature on SMEs by today. A significant role in the economy is played by the majority of SMEs spread worldwide (Philip, 2010 and Islam *et al.*, 2011). At present the vibrant SME sector is identified as engine of growth playing a significant role in economic growth, innovation, employment generation and poverty reduction (Stokes, 2003 and Prasad, 2004). According to European Commission (2003) Micro, small and medium-sized enterprises in European Union provide around 75 million jobs and represent 99 percent of all enterprises playing a central role in the European economy.

SMEs account for about 80–90 percent of the total number of enterprises in Sri Lanka and 75 percent of employment in the private sector (ADB Report, 2007). Further the contribution of SME sector has been increased from 40 percent in 2010 to 52 percent in 2011 (Ministry of Finance and Planning Annual report, 2011). All these evidences show the significance of SME sector in Sri Lanka.

SMEs face many difficulties of inadequate access to capital and finance, inadequate industrial infrastructure, lack of market base information, obsolete technology, lack of modern management skills and lack of labour training (Antonio and Gregorio, 2005). Gamage (2004) pointed out that these factors challenge the sustainability of SMEs. More over 85 percent of SMEs face significant survival challenges and more than 75 percent fail within five years of startup. In the face of these challenges it calls a viable and dynamic SME sector for economic development of developing countries (Asian SME Summit, 2009). It indicates SMEs to be proactive and innovative to face these challenges successfully and thereby to ensure the long term survival. Within this context, the necessity and the importance of planning are also emerged. Strategic planning is one of the salient factors which contribute to the performance of SMEs (Ihua, 2009; Kraus *et al.*, 2006; Topino *et al.*, 2005 and Kiriri, 2005). Besides, various studies have proven the necessity of strategic planning towards the development and success of SMEs (Balasundaram, 2009; French *et al.*, 2004). It is also argued that regardless of the size, every business needs to have an effective and comprehensive business plan to function with the reality (Herter, 1995; Kargar and Parnell, 1996). However, it is evident that the planning in smaller firms is at low level (Perry, 2001) and majority small firms do not engage in strategic planning (Glen and Weerawardena, 1996).

In the strategic management literature, there are vast number of studies focused on strategic planning in SMEs, most of them internationally and few of them locally. In summary majority of these studies were focused on the relationship between strategic planning and the performance of small businesses. In consideration with the strategic planning, the process of planning is the key component of performance not the plan (Braker *et al.*, 1988). A number of empirical studies have shown positive relationship between strategic planning function and performance of small and medium firms (Schwenk and Shrader, 1993; French *et al.*, 2004; Kraus *et al.*, 2006; O'Regan, Sims and Gallear, 2008; Aldehayyat and Twaissi, 2011). Conversely some studies have failed to find a positive relationship as such (Dahlgaard and Ciavolino, 2000; Gică and Negrusa, 2011).

Even though there are plenty of studies undertaken to investigate the strategic planning and performances of SMEs, the findings are inconclusive. These mixed findings regarding planning and performance relationship are backed by range of issues. One possible reason is that how the strategic planning has been defined in those studies and which aspects had been considered (Kraus *et al.*, 2006; Greenley, 1994). Another aspect is that the measurements of performance of SMEs. Apart from a very few, most of the studies have used only financial indicators to measure the overall performance (Kraus *et al.*, 2006; Greenley, 1994). The above research findings confound mixed results.

Further, Rue and Ibrahim (1998) highlighted the planning is a key issue in their effort to development and grow and performance. Majority of small firms are not engaged in strategic planning (Shrader *et al.*, 1989 and Glen and Weerawardena, 1996). According to Robinson *et al* (1986), firms did not engage in strategic planning constitutes over 85%. Unfortunately normative models are developed on large firms and no theory pertaining to strategic planning on small firms (Glen and Weerawardena, 1996; Kargar and Parnell, 1996). Within this context it is quite interested to find the level of involvement to the process of strategic planning with respect to SMEs in Sri Lanka and the barriers encountered in engaged in strategic planning process.

The ultimate result of low level of strategic planning is the poor performance of SMEs. This reduces the efficiency of SMEs by delaying the decision making process, poor organizing, poor staffing, weak controlling and directing (Priyanath, 2006). In opposition Bracker *et al.*, (1988) concluded that firms that practicing structured strategic planning procedures outperform all other firms.

Based on the above arguments this study attempts to address following research questions.

- What is the level of involvement in strategic planning?
- What is the relationship between strategic planning and business performance of SMEs in Sri Lanka?
- What are the barriers faced by SMEs in strategic planning?

## **1.2 Research Objectives**

The main objective of this study is

- To empirically examine the relationship between strategic planning and business performance of SMEs

The sub-objectives are

- To identify the level of involvement to the process of strategic planning among SMEs
- To examine the barriers faced by SMEs in engaged in strategic planning

## **2. Literature Review**

### **2.1 Definitions and Content of Strategic Planning**

Various scholars have defined the concept “strategic planning” differently for the purpose of their studies. According to Breaker and Pearson (1986), more research studies on strategic planning in small and medium firms focused on less than five year period and short time frames do not allowed to develop strategic planning. Further, their study focused on developing a classification scheme for the planning process sophistication of small and medium firms, categorizing the small firms according to the levels of strategic planning and examining the relationship between planning sophistication and financial performance. According to Robinson *et al* (1986) previous studies were failed to develop and operationalize the strategic planning process. Accordingly, the strategic planning process consists of eight distinct components: setting objectives, environmental analysis, strengths, weaknesses, opportunities and threats (SWOT) analysis, strategy formulation, financial projections, functional budgets, operating performance measures and control and corrective procedures. Shrader *et al* (1989) defined strategic plan is a written, long-range plan which includes a corporate mission statement, a statement of objectives and strategies to accomplish those objectives and operational planning was distinguished from strategic planning in the way that the setting of short-term objectives for specific functional areas such as finance, marketing and personnel. Dahlgaard and Ciavolino (2000) also had used several likert scale

statements to measure strategic planning. However, common features can be identified as period of plan (short/long term), content of plan (objectives, customers' expectations, competitor analysis, employee involvement in planning), review of plan and planning documents. El-Mobayed (2006) had carried out an empirical study based on 165 Palestine SMEs in Gaza strip. It focused on the strategic planning process consists of internal environment analysis, external environment analysis, mission, goals and objectives, strategy formulation, implementation, strategy controlling and evaluating. Veskaisri *et al* (2007) were also interested in ascertaining the impact of strategic planning on the growth of SMEs in Thailand. They have defined the formal strategic planning process in terms of defining mission, setting objectives, external analysis, internal analysis, developing alternative strategies, strategy selection, implementation and control. When compared with the previous interpretations of strategic planning this can be treated as detailed process.

## **2.2 Business Performance**

Previous studies have used different variables to measure the performance of SMEs with regard to financial and overall performance. Financial performance of SMEs was evaluated in different industries. Then the generic performance measures confuse the comparison of performance among those industries. Furthermore, it is highlighted that the application of inappropriate financial performance measures hampers the assessment of firm performance. On these grounds the empirical study of planning and financial performance of small, mature firm, financial performance was measured based on three criteria; revenue growth, entrepreneurial compensation growth and labour expense/revenue ratio growth (Bracker and Pearson, 1986). Apart from objective measures of performance, manager's perceptions of firm performance were used as a subjective measure for overall firm performance compared to competitors by Robinson *et al* (1986). The objective measures included sales growth (percent change in sales), net profit after tax (percentage changed in return on sales) and employment growth (sales per employee). Industry-specific data would help to describe the financial performance accurately and those included growth in revenue, net income growth, present value growth and CEO cash compensation growth over 5 years (Bracker *et al.*, 1988). The following Table 1 indicates the measures used by Bracker *et al* in 1988. Another set of financial measures were employed to measure the performance consisted of employment growth, return on sales, sales growth and after tax profits (Glen and Weerawardena, 1996).

**Table 1: Measures of Financial Performance**

Variable	Indicator
Growth in revenue	Average sales growth over 5 years
Net income growth	Average net income before taxes for 5 years
Present value growth of firm	Average book value of the firm, patents and goodwill for 5 years
CEO cash compensation growth	Average growth in CEO cash compensation for 5 years

Source: Bracker *et al* (1988)

Dahlgaard and Ciavolino, (2000) perceived that performance is an objective measure of company and used statements to reflect performance regarding market share and Return of [sic] Investment followed by the Table 2.

**Table 2: Indicators of Performance**

Latent variable	Manifest variables
Performance	The market share has increased during the last three years.
	The revenue has increased during the last three years
	The percentage of profit has increased
	The percentage of Return of Investment has increased during the last three years
	The total trend of the company's performance has improved

Source: Dahlgaard and Ciavolino (2000)

French *et al* (2004) also limited to financial performance measures in their study of 145 small professional service firms which consist of historical sales growth, historical growth in net profit after tax, forecast sales growth and forecast growth in net profit after tax. There is difficulty in obtaining reliable and correct financial data especially from SMEs due to the reluctance of disclosing them by owner/managers of those businesses (Wijewardena *et al.*, 2004). In this study also financial performance was evaluated based on changes in sales, which is ordinal scale (decreased significantly, decreased slightly, remained constant, increased slightly and increased slightly) and sales growth during 1997-1999 (ratio scale).

Efendioglu and Karabulut (2010) were insisted on financial performance which was assessed using Average sales growth/year, average profit/year and average export growth/year. Gică and Negrusa (2011) had used an aggregate measure of objectives achievement level, perceived

performance in 2008 compared to 2007, number of employees' dynamics and turnover dynamics to evaluate the overall performance. However, in this study annual sales, annual profit, number of employees, market share and investment to the business are considered as measures of business performance. Likert scale statements are used to evaluate the trend in these measures during three year period from 2009 to 2011.

### **2.3 Strategic Planning and Performance**

The literature on strategic planning and performance of small businesses confounds the relationship between these two phenomena. Basically this relationship can be categorized into three; positive impact, negative and no impact. The relationship between planning and financial performance was investigated in terms of four independent variables; size, age, planning history and levels of strategic planning. Referring to the four levels of strategic plans, firms that engaged in structured strategic planning outperform the rest with respect to financial performance. It was evident that the levels of planning process have an impact on financial performance. However, this impact has not clearly shown its direction. Another important independent variable was the history of planning and concluded that firms with long planning histories also outrun the firms with short planning histories (Bracker and Pearson, 1986). In comparison of performance of the firms which are engaged in strategic and operational planning revealed that the performance of the firms engaged in strategic planning was significantly high than their counterparts. Further, it was emphasized that merely strategic planning was not directly associated with high performance, but, both strategic and operational planning. Firms engaged in structured strategic planning were more effective than those with other types of planning. Conversely with Bracker and Pearson (1986) it was failed to confirm significant financial performance differences between long and short planning histories. But, firms with long planning history and structured strategic planning outperformed the other two types of planners. The results of an empirical study done by Glen and Weerawardena (1996) supported a significant relationship between strategic planning sophistication and performance. Kargar and Parnell (1996), the relationship between strategic planning and performance in small banks was measured seven characteristics of planning and two dimensions of performance as explained earlier. Findings concluded that there was a significant positive relationship between each planning characteristic and each dimension. In contrary to previous empirical findings an interesting and unexpected finding was emerged in the study of Dahlgaard and Ciavolino (2000) which was based on 120 Italian industrial companies. Seemingly the leaders had not understood the

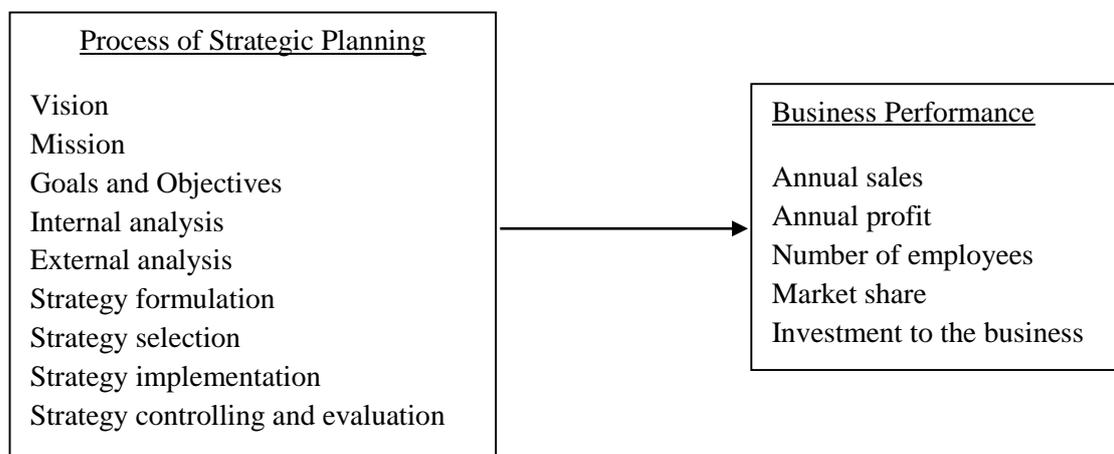
importance of strategic planning as an indicator of business performance. Hence leaders have to study factors which assure high impact on organizational performance. Kraus *et al* (2006) tested the strategic planning (time horizon, formality, use of planning instruments and control of plans)/performance relationship (employee growth) of 290 small enterprises in Austria. A significant positive relationship was only found for the degree of formalization. More specifically higher the degree of planning formalization, better the performance of small enterprises. Gică and Negrusa (2011) tested the relationship between components of strategic planning with the performance of 200 Romanian SMEs. The study focused on overall strategic planning with overall performance and partial influence of each components of strategic planning to overall performance and individual measures of performance with overall strategic planning. Results were not supported enough to confirm the general relationship between overall strategic planning and overall performance. That is the correlation was negative.

Based on the contradictory findings, the following hypothesis is proposed to this study for empirical testing.

There is a relationship between the involvement to the process of strategic planning and business performance

## 2.4 Research design and methods

Accordingly, the overall methodology for this study is deductive in nature and follows survey method. The research questions provide an insight to understand and analyze the research problem. According to the nature of research questions, the study consists of both descriptive and inferential parts. The following figure shows the conceptual framework for this study.



**Figure 2.1: Conceptual framework**

In the above figure, strategic planning has been identified as a process of nine steps, which represents the independent variable and business performance is measured using five indicators. In line with the main research problem and objective, the independent variable is the involvement to the process of strategic planning. Previous studies have shown the importance of strategic planning as a vital strategic management factor in achieving business success (Bracker and Pearson, 1986; Bryson, 1988; Baird *et al.*, 1994; Kargar and Parnell, 1996; (Wijewardena *et al.*, 2004; El-Mobayed, 2006; Gică and Negrusa, 2011). There is a dearth of studies focused on formal strategic planning process and its impact on the performance of SMEs in both developed and developing countries (El-Mobayed (2006) and Gică and Negrusa (2011). Accordingly, this study incorporated formal strategic planning process and it was defined as a process of developing vision, mission, goals and objectives, carrying out internal and external analyses, strategy formulation, strategy selection, implementation and control and evaluation. Thus each step in the strategic planning process was measured using Likert scale statements adopted from El-Mobayed (2006) and Further, developed by the researcher to cover the many aspects of the strategic planning process anchored by 5-point scale from strongly agree to strongly disagree. The relevant indicators of the strategic planning process are shown in Table 3.

**Table 3: Indicators of Strategic Planning Process**

<b>Stage of the process</b>	<b>Indicators</b>
Vision	You have articulated a vision for your firm Your firm has a written statement of vision
Mission	You have formed a statement of mission for your firm Your firm has a written statement of mission Your mission is long-term in nature All your employees understand the firm's mission And are committed to it
Goals and objectives	Your firm has a formal statement of or firm goals and objectives Your firm has established both long-range and short-range goals and objectives Firm's goals and objectives are consistent with the mission of your firm. Firm develops, updates and reviews goals and objectives annually Both management and employees participate in establishing goals and objectives for your firm

Internal analysis	<p>The firm determines its strengths and weaknesses</p> <p>The firm identifies internal capabilities and competencies</p> <p>Both management and employees are participated in determining your firm's strengths and weaknesses</p> <p>The firm considers the long term and short term impacts of strengths and weaknesses</p>
External analysis	<p>The firm identifies threats and opportunities of competitors</p> <p>The firm identifies the behaviors and preferences of customers</p> <p>The firm is on alert of the activities of suppliers</p> <p>The firm examines the macro environmental (economical, political, social, technological, legal) threats and opportunities</p> <p>The firm identifies and considers the changes and challenges in the international business environment</p> <p>Both management and employees are participated in identifying threats and opportunities of external environment</p>
Strategy formulation	<p>Strategies are consistent with any external environmental threats and opportunities</p> <p>Strategies are consistent with strengths and weaknesses</p> <p>Both management and employees participate in developing strategic alternatives</p> <p>Long term impacts are considered in developing alternative strategies</p> <p>Your firm develops budgets for all strategic alternative</p>
Strategy selection	<p>Your firm has developed a systematic method to select the best strategy</p> <p>Long term impact of the each strategic alternative are considered in selecting the best strategy</p>
Strategy implementation	<p>Once strategy has been selected it is implemented consequently</p> <p>The structure of the organization is considered when implementing the strategy</p> <p>You consider the norms, beliefs, attitudes, policies you have been practicing so far in your firm in implementing the strategy</p> <p>Your firm believes that there should be an appropriate leadership to implement the strategy</p>
Control and review	<p>Your firm has developed a systematic method for reviewing and evaluating strategies</p> <p>Both management and employees participate in the review and evaluation of strategic plans</p> <p>There is an annual review and evaluation of the strategic plan</p>

Source: Adopted from El-Mobayed (2006) and developed by the author

Subsequently for the purpose of data analysis, the involvement to the process of strategic planning was identified under three categories; low, medium and high involvement. Summated likert scale values ranges from 35 to 81, from 82 to 128 and from 129 to 175 are categorized as low involvement, medium involvement and high involvement respectively.

Business performance of the firm and it was measured through a combination of financial and non-financial measures including the annual sales growth, annual profits growth, annual employee growth, market share and investment to the business. These performance variables were adopted from Pushpakumari & Watanabe (2009). It was found that most of SMEs in Sri Lanka does not maintain financial reports properly and reluctance to disclose the data even if available (Wijewardena *et al.*, (2004). Therefore the owner/managers were asked to indicate the trend of each of these indicators during last three years as “Highly increased”, “Increased”, “Moderate”, “Decreased” and “Highly decreased” using 5-point scale.

## 2.5 Population, Sample and Sampling Method

Accordingly, for the purpose of this study SMEs are defined as any establishments having more than five employees and less than 300 employees. This definition was also adopted by Wijewardane *et al* (2004) in their study. Further, the definition of World Bank also identifies the maximum no. of employees as 300 for SMEs. Consequently it is strained to use the database maintained by the Department of Census and Statistics to select the sample. Since the operational population of this study consists of manufacturing sector in Western province, SMEs in Each district Colombo, Gampaha and Kaluthara were identified separately and selected the number of SMEs from each district proportionately. Due to the practical limitations the sample is limited to 275 manufacturing SMEs in Western province. The following Table 4 shows the district wise selection of SMEs.

**Table 4: Distribution of the Sample**

District	(A) Population (No. of SMEs)	Percentage out of total no. of SMEs in column (A)	Required no. of SMEs for the sample)
Colombo	3241	45 percent	124
Gampaha	3001	42 percent	115
Kaluthara	974	13 percent	36
<b>Total</b>	<b>7216</b>	<b>100</b>	<b>275</b>

The above table depicts the population and sample distribution across western province, Sri Lanka. Accordingly, 124 SMEs from Colombo, 115 from Gampaha and 36 from Kaluthara were selected as the sample for the data collection. Subsequently the no. of SMEs in each district will be selected under each manufacturing sector in order to represent the whole manufacturing sector. Data were collected through personally administered questionnaire distributed among 275 owner/managers who are the respondents in the sample.

**Table 5: Cronbach's Alpha Statistics of Scales: Pilot Study and Main Study**

Scale	No. of items		Cronbach's alpha		Cronbach's alpha based on standardized items	
	Pilot test	Real test	Pilot test	Real test	Pilot test	Real test
<b>Strategic Planning process</b>						
Vision	2	2	0.820	0.789	0.825	0.766
Mission	4	4	0.912	0.822	0.925	0.867
Goals and objectives	5	5	0.813	0.801	0.832	0.824
Internal analysis	4	4	0.706	0.713	0.702	0.718
External analysis	6	6	0.761	0.754	0.758	0.741
Strategy formulation	6	6	0.757	0.718	0.761	0.731
Strategy selection	2	2	0.830	0.767	0.902	0.867
Implementation	4	4	0.820	0.756	0.830	0.834
Control and evaluation	3	3	0.861	0.766	0.862	0.823
<b>Business performance</b>	5	5	0.838	0.801	0.853	0.831

Source: Author compiled data (2012)

### Data analysis

Data were analyzed through descriptive statistical measurements (such as mean, median, percentages, charts, bivariate correlation) and inferential statistical measurements were used to analyze the data and to test the hypothesized relationships.

The personal profile of the owner/manager of SMEs contains age, gender, marital status, level of education, previous training and prior business experience before entering in to the current business. Majority of 34 percent of owner/managers is in the age category of 51-60 years. Further, 72 percent of them are males and 74% of them are married. As shown by the sample, as per the highest educational qualification, 25 percent of them have passed GCE Advanced level examination. Considerably another 25 percent of them are graduates and 23 percent of them are holding either certificate or diploma, whereas 3 percent have obtained post graduate qualification.

The main objective of the study is to explore the nature of relationship between strategic planning process and the business performance of SMEs in Western province of Sri Lanka. Based on the conceptual framework of the study the hypothesis H1 was formulated and it will be tested using correlation analysis under three parts; relationship between overall strategic planning process and the business performance, relationship of each step of the

process with business performance and overall strategic planning process with each indicator of performance.

**Table 5: Relationship between Strategic Planning Process and Business Performance**

		Strategic Planning Process
Overall Performance	Pearson Correlation	.671**
	Sig. (2-tailed)	.000
	N	200

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Survey data (2012)

The results of the correlation analysis show that the p-value is less than 0.05 (.000). Hence the alternative hypothesis is accepted and concluded that there is a relationship between these two constructs. Further, the relationship positive and moderate with the Pearson correlation coefficient of .671. In addition to that, the relationship between each step in the strategic planning process and the business performance was examined as shown by the following table.

**Table 6: Relationship between each Step of the Strategic Planning Process and Business Performance**

		Vision	Mission	Goals and Objectives	Internal Analysis	External Analysis	Strategy Formulation	Strategy selection	Strategy Implementation	Control and Review
Overall Performance	Pearson Correlation	.475**	.552**	.509**	.388**	.526**	.460**	.380**	.538**	.395**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	.000
	N	200	200	200	200	200	200	200	200	200

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Survey data (2012)

With respect to each step in the strategic planning process a positive relationship can be identified at 0.01 level of significant. Mission, strategy implementation, external analysis and goals and objectives show moderate relationship with business performance. It implies that when each step in the strategic planning process is concerned separately and when the involvement in each step is high, business performance also would be high. However, the business performance would be increased at moderate rate with compared to the rate of involved in the strategic planning process.

Further, the researcher was interested to investigate the relationship between overall strategic planning process and the each measure of performance as shown by Table 7.

**Table 7: Relationship between Overall Strategic Planning Process and the each Variable of Business Performance**

		Annual sales during last three years	Annual profits during last three years	Employee growth during last three years	Market share growth during last three years	Investment to the business
Strategic Planning Process	Pearson Correlation	.530**	.470**	.432**	.345**	.511**
	Sig. (2-tailed)	.000	.000	.000	.000	.000
	N	200	200	200	200	200

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Survey data (2012)

According to the above table, the relationship between overall strategic planning process and the each indicator of the business performance is presented. The significant values for each of the performance indicator are 0.000 (less than 0.05) and the correlation is significant at 0.01 level of significance.

The sub objectives of the study are to identify the level of involvement in the process of strategic planning and to examine the barriers faced by the SMEs in strategic planning. Accordingly the following table shows the level of involvement in the process of strategic planning by manufacturing SMEs in Western province.

**Table 8: SMEs by Level of Involvement to the Strategic Planning Process**

Level of involvement in the Strategic Planning Process	Score Range	No. of SMEs	Percent	Cumulative Percent
Low	35-81	11	5.50	5.50
Medium	82-128	108	54.00	59.50
High	129-175	81	40.50	100.0
Total		200	100.0	

Mean: 125.79

Median: 127.31

Mode: 124

SD: 17.146

Source: Survey data (2012)

According to the above findings majority of SMEs (54 percent) are moderately involved in the strategic planning process.

As mentioned in earlier section one of the sub objectives includes examination of difficulties faced by manufacturing SMEs in Western province when they involved in strategic planning process. Accordingly, respondents were asked to mention the most important barrier

encountered in strategic planning from the SMEs who are engaged in formal and informal planning. The following Table 9 depicts the most important barrier when involving in the strategic planning process by manufacturing SMEs in Western province.

According to the Table 9 percent of SMEs in the sample have mentioned that unpredictability of the business is their major barrier to engage in strategic planning process. Further, 18 percent of SMEs claim that they are lacking of sufficient time, 15 percent SMEs are experiencing insufficient skills and expertise. However, another 11 percent argue that the business is too complicated. Based on the data, four important barriers could be identified when SMEs are engaged in strategic planning. In accordance with the importance these barriers can be arranged as unpredictability of business, lack of sufficient time, lack of skills and expertise and complexity of the business.

**Table 9: Most Important Barrier in Strategic Planning**

Barrier	No. of SMEs	Percentage
Having a mental plan	16	8
Business is unpredictable	41	21
Lack of sufficient time	35	18
Lack of skills and expertise	30	15
Not appropriate for the business	8	4
No need to prepare a plan	7	3
Business is too small	5	2
Business is too complicated	23	11
Too expensive	15	8
Sensitivity of information	20	10
Total	200	100

Source: Survey data (2012)

## Discussion and Conclusion

The relationship between strategic planning and performance is still unanswered in the strategic management literature with respect to SMEs. It provides empirical evidences for positive as well as negative or no relationship. However, the majority of studies have proved that there is a positive relationship between the strategic planning and business performance in SMEs. The present study is also mainly aimed to investigate this relationship of manufacturing SMEs in Western province of Sri Lanka. Findings of this study revealed that there is a positive relationship between these two constructs. Further, the study found that 54 percent and 40 percent of SMEs in the sample are moderately and highly involved in the

strategic planning process. One of the possible reasons may be that the majority of manufacturing SMEs in the sample are highly involved in the process of strategic planning. Another reason may be that the owner(s)/manager(s) of manufacturing SMEs in Western province exhibit high levels of education. Another possible reason is that the SMEs selected in this study are manufacturing SMEs. According to the nature of these manufacturing SMEs, they have to plan their businesses.

These facts may encourage the positive relationship where the involvement to the process of strategic planning is high and moderate, the business performance also tends to be high. According to the literature review, these findings are consistent with Bracker and Pearson (1986), Robinson *et al* (1986) Shrader *et al* (1989), Baird *et al* (1994), Glen and Weerawardena (1996), Kargar and Parnell (1996), Wijewardena *et al* (2004), Veskaisri *et al* (2007) Efendioglu and Karabulut (2010) and Aldehayyat and Twaissi (2011). On the other hand Kraus *et al* (2006), O'Regan *et al* (2008), Gică and Negrusa (2011) found that a negative relationship.

### **Limitations of the study**

However, the results of this study must be interpreted in the light of obvious limitations. One limitation is that the research is constrained by the vastness of SME sector and the limited time availability. Therefore this study was confined to manufacturing SMEs in Western province only. Sample size was another limitation of the study. Nevertheless, the results were also subject to the limitations commonly associated with the questionnaire method. Conceptual limitations consist of definitions of major constructs of this study: strategic planning, performance and Entrepreneurial Orientation. For the purpose of this study strategic planning was defined as a nine-step process whereas business performance using five measures. Further, there are some factors such as firm size, uncertainty which mediate the strategic planning-performance relationship. Those mediating factors were not considered in this study. In addition to that, there are limitations in relation to the operational definition of SMEs. In this study SME was defined based on only one criteria; no. of employees. The following recommendations can be made for future research.

- The present study mainly focused on the relationship between strategic planning and business performance of manufacturing SMEs in Western province of Sri Lanka. Further, this research can be recommended to conduct in Island wide.

- For the purpose of this study, strategic planning was defined in terms of nine-step process and business performance in terms of five measures. There may be many measures categorized under financial (Net profit, Return on investments etc.) and non-financial (objectives achievement level, manager/employee/customer satisfaction etc.). Accordingly, another prospect for further research lies in the need to develop more tools to define strategic planning process and business performance and validate the relationship which is investigated in this study.

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