

# AN EMPIRICAL EVIDENCE OF A FORMAL STRATEGIC PLANNING PROCESS IN THE SCOPE OF SME

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**Submission date:** 09-May-2021 02:50PM (UTC+0700)

**Submission ID:** 1581687012

**File name:** 211.doc (124K)

**Word count:** 4151

**Character count:** 22249

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IN THE SCOPE OF SME

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**Abstract**

The purpose of this research is to find an empirical evidence about the existing condition of the diversity of strategic planning undertaken by small and medium scale businesses in the province of Yogyakarta-Indonesia both export or local market oriented. More specifically the researchers want to report about the attitudes of business owners on the items of the planning developed, the time span of planning, the tools or techniques of planning used as well as the diversity of the planning process developed by SME's export orientation versus SME's local market orientation. The description of the characteristics and procedures of strategic planning in the scope of SME uses a sample of 135 SMEs, while the analysis method uses a qualitative approach based on statistical description. The research finding is that there is a positive commitment of respondents on the strategic planning that is seen as a way to guide the company in achieving short and long term goals. The other empirical evidence is to identify the different priorities of planning aspects as well as the tools and techniques of strategic planning adopted by SME based on the market orientation type. The limitation of this research is that it does not explore the causal relation between the strategic planning to the performance. The most valuable originality is to provide an empirical evidence of strategic planning context in the scope of SME, especially in the economic context of the developing countries. Referring to the mapping result of Greenley's study (1994) on the review of empirical research that the strategic planning practice is mostly reported by using the developed countries setting like the United States or other countries of Europe, there is only a few empirical evidence of strategic planning practice profile of companies in the developing countries.

**Keywords: Strategic Planning; SWOT Analysis; SME; Indonesia; Type of Market Orientation.**

**A. Introduction**

The other terms of strategic planning are "long-term planning", "company planning" and "management strategy" (Dincer *et al.*, 2006). However, the purpose of this article is not to analyze the differences in terminology. The use of the formal strategic planning term refers to defining the formal strategic planning concept proposed by Pearce *et al.* (1987); p. 658. The formal strategic planning is intended to describe the managerial process associated with the

process of determining the vision, mission, main goal of organization, strategies and policies undertaken to acquire and allocate the resources to achieve the short and long term objectives of the organization. The term of adding the word “formal” is emphasized by Mintzberg and Lampel (1999) that the strategic planning is differentiated into two types, they are “formal” and “deliberate” strategic planning which cannot be planned because the strategy can be done suddenly as an effort to respond to the changes that arise suddenly. The term “formal” reflects that the strategic planning process undertaken by the company explicitly requires a systematic procedure used to obtain the commitment and the involvement of the main stakeholder of the company that will be affected by the plans that have been made by the company.

Glaister and Falshaw (1999) concluded that despite the popularity of the strategic planning since the 1960s to the 1990s has relatively fluctuated, but most earlier strategic management research said that the strategic planning becomes a critical element and provides many benefits for the company (Ketokivi and Castaner, 2004 ). Therefore, the study to explore the extent of the ability of the strategic planning process and the extent of the use of the strategic development tools and techniques of the company is interesting to do, especially in the context of the natural conditions of the developing countries like Indonesia in which the economic condition is in transition. This finding will help to generalize the finding of the previous studies and it is instructive to compare the strategic planning process of the companies which are in a very well established market economy with the companies which are in the context of a transition economy.

Indonesian economic characteristic is interesting to be explored, considering that the Indonesian government focuses on the program “Glocalization” or strengthening local micro-business to more readily in the era of global competition, the effort of local economic mainstreaming based export products is also a priority program of Yogyakarta Provincial Government. The context of this policy change has motivated the researchers to conduct a comparative study of the extent of the strategic development process in the scope of SME based on the categorical type of market orientation as the company’s strategic objective.

The next part provides a brief overview of some literatures which are relevant to the strategic planning process, and the third part will present the research methods and the fourth part will present the findings and discussion. The last part of this paper will present the managerial implications and the recommendations for the future research.

## **B. Literary Review**

### **1. The Conception of Strategic Planning**

Capon *et al.* (1962) described the importance of rationalistic approach in the strategic management that is the importance to identify the priorities of objectives, plans and resource allocation. This is a classical view on the theory of strategic management which considers that the strategy is as a process of deliberate planning (it is called formal) that needs to be initiated by the top management (top-down) based on a rational analysis on the complexity of the industry and it is aimed in order the cohesive grand strategic configurations and the creation of the strategic decisions consistency of the company (Volberda, 2004; Dincer *et al.*, 2006).

The classical view on the strategic planning is the process of strategic planning which is built based on a set of the strategic development process steps which include: the stages of objective formulation, environmental analysis, strategic formulation, implementation and centrally control practices (Greenley, 1986). The positive relation between the strategic planning and the company performance has been done by many earlier researchers although the result of the empirical evidence of the strategic planning effect to the performance is still vague. The less strongly effect trigger by some researchers is caused by several factors such as the system formalization which requires the completeness of planning document in writing and detail (Pearce *et al.*, 1987; Kulkalis, 1991); the formalization of planning causes the high of an excessive bureaucracy (Bresser and Bishop, 1983). However, a contradictory statement is expressed by Armstrong (1982) that in the extensive literary review is concluded that the system of the formal strategic planning will create a better performance. Another study provides further evidence that a strategic planning is developed based on a conventional strategic management paradigm, much more conducive to create the organizational performance of the company (Anderson, 2004). The study notes a positive relation between the planning and the performance, especially in a dynamic and complex industry.

The debate of a formal strategic planning role does not diminish the meaning of understanding of the strategic planning process, especially in the scope of SME. Considering that the exploratory research of the strategic planning practice in SME is still lack, especially in the context of developing countries, such as Indonesia. Thus, the study of the strategic planning process that will be described is related to the time span of planning, the field or the function that develops the strategic planning process as well as a number of analysis tools and the techniques of planning done by the company.

## **2. The Relevance of Planning, Plan and Planner**

Planning is literally interpreted as a process of preparing the strategic programs, while plan is defined as a measurable target and it is used as a guideline for the company to design the action and the number of programs that can be operated by the company concretely. Then the planning can also be understood as a process of articulation, justification and elaboration of the company's strategic decisions. The success of the planning requires thinking creatively to the planners themselves to be able to understand what they want to achieve and expand, when the time to expand the business, how much the capital and the target to be achieved and set the right time for the realization of each strategic program and action. Gleister *et al.* (2008) described three important steps in preparing the strategic programs: (a) Codification; as the process of clarification and expressing the strategy into a clear statement and can be operationalized, then the consequence of the strategic claims should be more detailed. For the example, if the long-term objectives expand the market segment with a new technology, it must be clarified specifically that the target of the market expansion reaches 35%; (b) Elaboration; as the process of making the work structure into sub-strategic program in which each of it is a set of action plans as a whole in order to achieve the strategic objectives of the company. For instance, the corporate strategy builds four new factories, so the strategic decision should be translated into sub-strategy or the functional level in HR function then the recruiting policy of new human resources is 200 employees, and so on, because the consequence affects on the planning changes to the budget, the performance control standard and the others; (c) Strategies Conversion; the strategic programming is not the only way that should be implemented consistently based on the planned program, but it should be adaptive to the environmental change, so the strategic program developed is as the impact of the conversion process of the old strategy.

## **4. The Tools and the Techniques of Strategic Planning**

The era of the 1960s until the 1970s most of the company's senior executives acknowledged that strategic planning is recognized as "one of the best ways" to develop and implement a strategy that will give each business unit having a competitive excellence (Mintzberg, 1994) and at the time the strategic planning met a popularity triumph but since the early 1980s there was a phenomenon of a decline reaction in popularity of the strategic planning for the effects of the influence of empirical evidence on the performance of strategic planning has not been conclusive (Glaister *et al.*, 2008). The condition is triggered due to the

economic recession in 1980 and 1982, the practical evidence for the failure of strategic planning leads to a negative view on the perspective of the classic strategic management or the formal strategic planning. The doubt of opinion on the view that strategic planning should be explicit and deliberately planned preparation is stated by Mintzberg and Waters, 1985 who believe that the strategy may arise from the employee's actions without a priori intention which is based on the existing grand strategy.

Fredrickson and Mithchell (1984) also stated that the turbulent condition of business environment is also criticized that the formal strategic planning explicitly has a risk of the emergence of the stiffness procedures that will hinder the company's innovation process later. The effect in practice is that many companies do a reduction in the size of the planning department in the only certain fields which means that not all departments require a strategic planning. A contradictory statement is precisely stated by Falshaw *et al.*, (2006) and Glaister and Falshaw (1999) who stated that the era of the 1990s became the revival era of the popularity of strategic planning for their views on the importance of the development of resource-based excellence. It explicitly requires the observation of the supporting potential resources of the strategic excellence systematically, so the needs of a number of tools and techniques for forecasting the future economic value of the company need to do. Some of the analytical tools and techniques which are often developed in the strategic planning process of the company are a matrix analysis of BCG growth; SWOT Analysis (Strength, Weakness, Opportunities, Threat); Porter Industry Analysis and the others.

### **C. Research Method**

A discriptive method is used in the study. This method is one of the most important methods and the most frequently used in researches, therefore, it is the most suitable method for this study. This method can be used to describe and explain the facts and define the real circumstances as well as to define the common and prevailing practices. It is a method that can be used to describe and explain a particular phenomenon. The study sample consists of 135 SME owners in Yogyakarta. The questionnaire is used as a tool in this study for collecting the relevant data and information because of its nature regarding its targets, methodology and community.

## D. Findings and Discussion

### 1. Research Findings

Some characteristics of strategic planning are the attitude and the perception of the business owners on the importance of strategic planning, time span and planning and the planning procedures that have been developed by the company. The characteristic description of the last strategic planning is related to a number of planning tools or techniques used by the company. Table 1 describes about the percentage of the export orientation attitude more than the companies' local market orientation which means to have an attitude or perception that the statement of the company's vision should be written clearly, assessing to the opportunities and the threats from the outside environment of the company is essential, identifying the strengths and the weaknesses owned by the company is also important and there is a tendency to form a group that has a specific responsibility for the strategic planning process. While the characteristic of the ability to make short and medium-term objectives has been done by the entire company both export orientation and local market orientation.

Table 1. The Comparison of the Strategic Planning Characteristic

No	Does your company have	All Firms		SME's export orientation		SME's local market orientation	
		No	%	No	%	No	%
1	a written mission statement	103	76,3	76	95	27	49
2	a set of short/long term objectives	135	100	80	100	55	100
3	Assesing the oppourtunities and threats in the external environment	97	71,9	75	93,8	22	40
4	identifing the strenghts and weakness of your company	102	75,6	67	83,6	35	63,6
5	a group with specific responbility for strategic planning	93	68,9	66	82,5	27	49
	The number of sample	135		80		55	

Table 2 describes about the planning items that have been created by SME with a time span of planning process are grouped into three time spans, they are short-term planning (<1 year); medium-term planning (over 1 year to 5 years), while long-term planning uses the

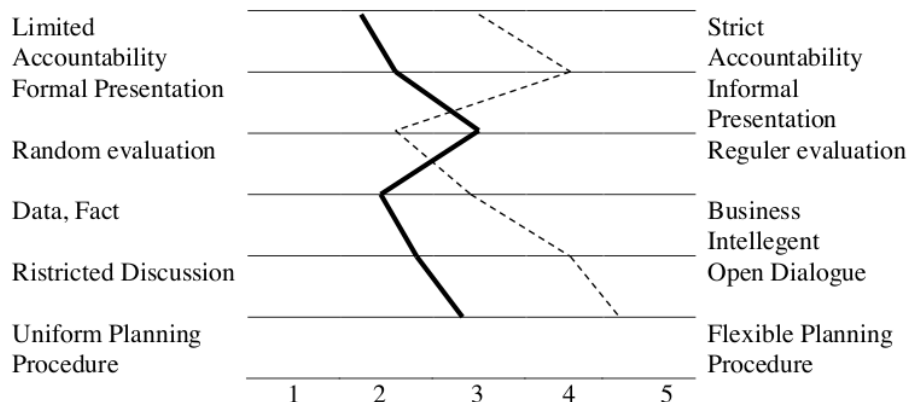
planning time scales of more than 5 years. As for the kind of planning that have been made includes the production, selling, financial, HRM, capital needs and corporate plan.

Table 2. Time Span of Strategic Planning Characteristic

	No Plan		< 1 year		1 – 5 years		>5 years	
	No	%	No	%	No	%	No	%
Production Plan	2	1,4	84	62	38	28,1	11	8,5
Marketing Plan	12	8,8	86	63,7	29	21,5	8	5,9
Staffing/HRM Plan	4	2,9	50	37	76	56,3	5	3,7
Financial Plan	6	4,4	78	57,7	43	31,9	8	5,9
Capital Plan	18	13,3	36	26,6	77	57	4	2,9
Strategic Corporate Plan	35	25,9	49	36,3	45	33,3	6	4,4

The description of the planning procedure carried out by the companies' export orientation and local market orientation will be illustrated by Figure 1 which describes the finding that the companies' export orientation have a higher average value than the companies' local market orientation particularly with regard to the characteristics (1) the presentation system of financial report strictly, (2) the presentation procedure of planning informally, (3) the evaluation program is conducted at random as needed, (4) using an open dialogue in the strategic planning process and (5) the preparing procedure of strategic planning is made more flexible. However, in the strategic planning procedure is still based on the real facts and data as company's local market orientation which also has not utilized the business intelligence information because the activities of market survey or competitors evaluation in the scope of SME are rarely done.

Figure 1. The Preparing Procedure of Strategic Planning





----- SME's export orientation  
 \_\_\_\_\_ SME's local market orientation

The description of the use of preparing tools or techniques of strategic planning is intended to provide an overview of the existing conditions of SMEs understanding on a number of tools or techniques that will help the companies in understanding the competitive situation or the ability of the company better, so the strategic planning developed will be able to encourage a better company's performance. Table 3 describes more detailed about the ranking of tools and techniques used by the company in the preparing the strategic planning both in the scope of SME's global or local market orientation. There are a popularity variety of tools that is used between the companies' export orientation and local market orientation. Generally three popular tools used in the scope of the SME are SWOT analysis, Value Chain Analysis and Economic Forecasting Model.

Table 3. The Use of Tools or Techniques of Strategic Planning in the SME

	All firms		SME's export orientation		SME's local market orientatation	
	Rank	mean	Rank	mean	Rank	mean
Porter's Five Force	4	2,92	4	2,96	4	2,96
SWOT Analysis	1	3,55	2	3,26	1	4,02
Economic Forecasting Model	3	3,08	3	3,07	3	3,34
Value Chain Analysis	2	3,26	1	4,12	2	3,67
Financial Analysis of Competitors	5	2,02	5	1,97	5	1,92
Cognitive Mapping	6	1,92	6	1,86	6	1,68

## 2. Discussion

The existing condition about the characteristics of the strategic planning in the scope of SME describes the company ability of the strategic planning process. The interesting finding is that the entire sample companies have been able to make a good strategic objective clearly both short and long-term objective. Another specific finding is that there are a number of companies that have not made a mission and vision statement in writing. This condition is reasonable considering that there are a number of companies which have not formed a working team that is responsible specifically for the strategic preparation process. These findings reinforce the argument of Dincer *et al.* (2006) that the success of the elaboration of

strategies into the programs and the actions requires a creative thinking of strategic planning strategies and the absence of a specific team which is responsible for the strategic planning preparation process leads the finding of the SME's inability to make a vision and mission statement in writing. These findings are very interesting and become a consideration for the government and the business practitioners in particular the small and medium businessmen to understand that the process of codification and elaboration of the strategy becomes an important issue.

The strategic plans which are prepared annually are the production, marketing and company financial plan, while the plans which are related to funding decision, HR and corporate plan is prepared as a medium and long-term plan. The interesting finding is that there are still a number of companies which operation without the presence of planning and after having reconfirmed in the field that most types of the company's productions are the companies that produce based on the orders. Some empirical evidence of the failure of strategic planning in the creation of a better performance of the company are proven by Glaister *et al.* (2008) that is triggered by a failure in allocating the resources strategically, if the company does not have a plan at all, the performance creation is difficult to achieve.

The procedure of the strategic planning preparation in the scope of SME has a diversity if it is assessed based on the market orientation (Koufopoulos *et al.*, 2005) and the results of this study identifies that the companies' export orientation have the characteristics of more flexible planning procedure, use an open dialogue in the process of making decision, the system of financial report preparation is more strict but the evaluation is done as needed. The characteristic contradicts with the companies' local market orientation that is the planning presentation formally, with the general procedure and a system of evaluation is planned on a regular basis and reporting system is limited to the decision-making. Likewise, the decision-making process that uses a discussion is only limited to the decision-making group. The interesting thing is that the databases used in the decision-making process on the two types of companies are both based on the same data and facts that exist in the company.

The study about the tools and techniques used in the preparation of strategic planning is obtained the empirical evidence that the majority of the companies sample have known and used the tools in the strategic decision-making such as SWOT Analysis, Value Chain Analysis, Porter's Five Force and the others. However, the tools such as cognitive mapping and financial analysis of competitor are not commonly used. Fredrickson and Mithchell (1984) stated that a decision-making tool will be useful for the company to reduce the risk of uncertainty of a fluctuating environment.

## **E. Managerial Implication and Recommendation for the Future Research**

### **1. Managerial Implication**

The authors explain that the planning process is not a static process although the planning must be formally planned but it should be a change especially in order to reveal the truth and to combine a short-term and long-term perspective, so it is necessary to the changing strategic planning process. One way to make the strategic change is by a creative way rather than a passive way because the change itself is often unpredictable, then there are four ways which are recommended by Mintzbergs and Lampell (1999) that can be selected by the companies in order to develop a strategic planning:

- (1) through learning for interacting with others;
- (2) evolved for creating new ideas and practices with a new technology due to the competition intensity;
- (3) because the ability to explore new ways to do something and
- (4) the development of the strategy that cannot abandon the old strategy.

### **2. Recommendation for the Future Research**

Developing a causality model of a strategic planning on the performance needs to consider the effects of the organizational context to reinforce the effect of a strategic planning on the performance. For instance, the organizational contexts that can influence the variants of the strategic planning effect are the characteristics of industry, organizational culture and the size of the company.

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