

ROLE OF STRATEGIC PLANNING IN SMALL BUSINESS: AN OVERVIEW

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Abstract

During the last several years, a lot of attention has been paid on the role of strategic planning in small business. Even academicians and researchers continuously emphasized on the merits of strategic planning. The literature on strategic planning in small business suggested that small firms should use strategic planning as an important tool to enhance the performance of firm. Strategic planning has a great influence on the growth of company and it can also help in maintaining the existing capacity and size of the firm. Therefore, this study will contribute in the present stock of information about strategic planning in small business. Finally, it is found that strategic planning has a significant impact on the overall performance, growth and production of a small business. Strategic planning is significantly and positively related with financial success of a firm. Further, the level of uncertainty in small business can be reduced by planning activities.

Keywords: strategic planning; performance; small business; small firms; management

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Concept of Strategic Planning

Strategic planning, a key element of organizational management is widely accepted by both professional managers and academicians. Literature on strategic planning has grown rapidly over the past decades especially with reference to small business. Many scholars have a view that small firms should use strategic planning as a necessary tool for better performance. Strategic planning is necessary for small as well as for large business because it helps to take better advantages of the future opportunities (Steiner, 1967). Carland et al. (1984) explained the term 'entrepreneur' in the sense of an owner of a small firm who uses practices of strategic management.

Strategic planning can be defined by the concept of three elements of strategic planning process: awareness of environment, formal documentation about future strategic course of action and awareness about short term and long term strategic implications. Environmental awareness is a term used in management in which businessmen collect information from environment so that they may achieve a sustainable and better competitive advantage. For sustaining competitive advantage, a firm should respond to the information which is collected from environmental scanning so that strategies can be altered according to needs.

Strategic planning consists of planning process which is adopted by a company to develop such strategies that may contribute to the performance (Tapinos, 2005). The important aspects of strategic planning are: a long term horizon, the use of planning instruments, formality, and frequent control of plans. Strategic planning can contribute in management and performance by creating better understanding of environment, by generating relevant information, and by reducing uncertainty in business (Hodgetts and Kuratko, 2001). Strategic planning is an ability to make assessment regarding implications of any change in particular sense (Gibb and Scott, 1985).

Small Business

Small scale firms have important role in economic growth of a country. Historically, these small scale industries have provided a base for industrial structure and the process of industrialization in many countries. In developing countries, despite of scarce resources and other socioeconomic factors, the strategic planning comprises of more than ninety percent of all industries. The

concept of small business covers a wide range of activities and varies from one place to another, from one author to another and from one country to another.

There is no single definition of small scale industries. But this term is used everywhere in developing and developed world to denote a particular type of industry. In fact, in different countries, there are different definitions of small-scale business. Some scholars use quantitative criteria and define the concept in terms of quantity of production or size of business. In other hand, some scholars use qualitative criteria and define the concept in terms of functional characteristics of a business like access to capital market, specialization in management etc.

There are more than 50 definitions of small business sector in 75 different countries (ILO,1977). However, publications about small scale business do not differentiate between different types of small scale business whether it manufactured, serviced or retailed. So we can say that the difference between them is just due to characteristics of firms and entrepreneurs and their pattern of functioning.

Carland et al. (1984) explained small business as it is that type of business which is not involved in new marketing techniques and innovations. On other hand, Bernett and Machness (1983) explained about small firms as those firms which have following characteristics: (1) They have lack of specialized services for management; (2) There is always necessity for senior people to involve in it for running the business; (3) There is only one or two people who are involved in decision making process; (4) There is no significant time for senior men so that they think about the progress or development of the firm. Some scholars have a view that it is a better way to define small business according to a number of persons engaged in business and the number of employees.

From above discussion, we can say that a small business is a business with small number of employees. The definition of 'small' is also varies from country to country. In United States it means 100 employees while according to European Union it means 50 employees engaged in business (Barnett and Mackness, 1983). Normally, small business is owned by private person or persons in the form of corporations or sole proprietorships.

The Environment of Small Business

The environment of small business can be defined by the type of business or by the opportunities for small business characterized by a community. Small business consists of many service companies, local enterprises, and professional companies that provide more than half of non-farm employment in most of the capital economies of the world (Watts and Ormsboy, 1990). The merchandisers from where we purchase in our daily life is also an example of small business. It also includes common practices like enterprise of doctors, tailors, interior designers, accountants, and many such enterprises where we turn for our personal needs. There are also a number of small manufacturers, distributing companies, wholesalers, and vendors who have specialization in providing special nature of goods. Many of these enterprises are small in nature. Although, they have opportunity to expand their supply of production in new markets or to convert their business in large-scale, but they prefer their autonomy of small business and thus avoid from rapid expansion (Schwenk and Shrader, 1993).

The independent businessman has a different role in organization from that of a big entrepreneur or a corporate business manager. In fact corporate business managers are also professional specialists who focus on special tasks and responsibilities like advertising, design engineering, or tax accounting (Robinson and Pearce, 1984). On the other hand, owners of small business behave in different way. They may hire fewer workers, but their behavior is like an autonomous owner rather than a professional manager. The owner of small business is also associated with risks of financing and operating a new business but there is no innovational development in their minds.

Incidence of Strategic Planning in Small Business

Although in early times, some studies (Watts and Ormsboy, 1990) gives frustrating findings about the relationship between strategic planning and small business performance and there exist tension in normative findings and empirical findings (Hanlon and Scott, 1993). But later on, new studies have proved that strategic planning has a positive effect on small business performance (Schwenk and Shrader, 1993). Formal strategic planning provides an opportunity to businessmen for decision making and helping them to take a long-term view. Strategic planning is a criteria through which organizational achievements can be measured (Open, 1993). Lyles et al. (1993)

suggested that businessmen should adopt that strategic planning which influences the growth of organization and helps to maintain the existing size of a firm and its capability (Gibb and Scott, 1985).

Research shows that the role of strategic planning in small business is informal, irregular and unstructured due to ineffective and insufficient information. Usually, this information is obtained from informal sources and that is why it is reactive rather than proactive (Gibb and Scott, 1985; Flavel, 1991). There are several reasons for informal strategic planning in small-scale business. These include cost, lack of time, expertise, training, information, education and managerial skills (Robinson and Pearce, 1984; Shrader, et al.1989). Many researchers have suggested that formal strategic plan is not better for small business because high level formality may not allow important innovations and creativity. They argued that the emergent strategies are more helpful than planned strategies.

Without strategic planning, the importance of awareness of environment and the ability about assessment of a particular change would be crucial for the development of small business (Gibb and Scott, 1985). It means that awareness of environmental changes and their implications of strategic actions are more important than formalization of their thinking and awareness. It is a common practice that owners and managers of small business hardly think about alternative ideas and due to this reason they cannot implement case plan strategies properly. They are unaware of potential changes which may occur in the environment in long run.

Strategic Planning and Success

Berman and Sussmann (1997) explained that the firms who plan strategically may obtain better and significance financial results. So we can say that all the expenditures related to planning activities can be compensated by implementation of strategic plans. This hypothesis was proved many times and found correct. For example, Schwenk and Shrader (1993) identified that strategic planning is significantly and positively related with financial success of a firm. Similar hypothesis was also proved by Robinson and Pearce (1984) in their meta-analysis. Further, methews and Scott (1995) explained that the level of uncertainty in small business can be reduced by planning activities.

Schwenk and Shrader (1993) came to the conclusion that through strategic planning long term thinking can be promoted and it provides a basic structure for the evaluation and identification of strategic alternatives. Simple planning activities have a significant and positive impact on the success of small firms and it leads to a better understanding of a business (Lyles et al., 1993).

It is also found from empirical studies that formal strategic planning which is based on business plans has proved to be very helpful in newly and fast growing enterprises (Robinson et al., 1984). Sexton and Van (1985) have proved in a longitudinal analysis that opportunity of survival of small and medium enterprises (SMEs) who adopted formal strategic planning is higher. So we can say that a more detailed and more advanced strategic planning leads to substantial corporate growth.

Conclusion

From the above discussion, it is concluded that there is a positive relationship between strategic planning and firm's growth. The literature on strategic planning in small business suggested that small firms should use strategic planning as an important tool to enhance the performance of firm. Strategic planning has a great influence on the growth of the company and it can also help in maintaining the existing capacity and size of the firm. Increasing evidences have also proved that strategic planning has significantly and positively related to the performance of small business. Therefore, the present study will contribute in the existing literature of strategic planning in small business.

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