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# EXPLAINING THE LACK OF STRATEGIC PLANNING IN SMEs: THE IMPORTANCE OF OWNER MOTIVATION

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## ABSTRACT

Considerable evidence shows that strategic planning leads to increased firm performance. Yet, the majority of SMEs do not plan and the reasons why are not well understood. This article questions the common approach to understanding this problem based on identifying business barriers to planning. For the majority of SME owner-operators, business performance often ranks far behind intangible goals such as autonomy, personal satisfaction and lifestyle. Strategic planning may therefore have little value to owner-operators driven by such motivators. This article presents an alternative perspective to the issue by arguing that owner aspirations are integral to whether or not SMEs strategically plan.

Keywords: SMEs, strategic planning, motivation, growth, planning barriers

## INTRODUCTION

Research has consistently shown that most small and medium sized enterprises (SMEs) do not engage in strategic planning (e.g., Robinson & Pearce 1984; Sexton & van Auken 1985; Berman, Gordon & Sussman 1997; Orser, Hogarth-Scott & Riding 2000; Sandberg, Robinson & Pearce 2001; Beaver 2003). This is at odds with much of the strategy literature that dictates that enterprises “*must* actively plan for the future” to compete effectively and survive (Ennis 1998, p.54). Accordingly, SME owner-managers have been accused of being “strategically myopic” and lacking the “long-term vision as to where their company is headed” (Mazzarol 2004, p.1). The concern is that by neglecting strategic planning, SMEs may not achieve their full performance and growth potentials, and their survival could be placed at risk (Berry 1998). Consequently, considerable research effort has been expended on identifying ‘barriers’ that hinder planning in order that these may be overcome or else mitigated to encourage strategic planning in SMEs.

This article critically examines the apparent lack of a strategic imperative in SMEs and highlights inherent problems with how this issue has been approached. It argues principally that the antecedents of SME strategic planning have not properly been considered and that the extant focus on the business—rather than the owner-manager—is inappropriate to a better understanding of the issue. The article draws together two bodies of the SME literature which have thus far been treated as independent areas of study—namely, strategic planning and business start-up motivation—to present a conceptual model based on business ownership aspirations to explain levels of strategic planning in SMEs. At a practical level, the model has implications for how government and other initiatives aimed at enhancing the performance and growth of SMEs should be developed.

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**BACKGROUND—THE IMPORTANCE OF SMEs**

The importance of SMEs to world economies is well documented (Birch 1989; Storey 1994). SMEs (firms with 200 or less employees) make up the largest business sector in every world economy (Culkin & Smith 2000), and governments around the globe are increasingly promoting and supporting SME growth as part of their overall national development strategy (Abdullah & bin Bakar 2000).

While they dominate in terms of absolute numbers, SMEs are also important because they are key drivers of employment and economic growth. At a macro level, SMEs have created the majority of new jobs in OECD countries since the 1970s (Peacock 2004) and their collective contributions to respective GDPs (e.g., approximately 30% in Australia and New Zealand, 51% in the UK and USA, 57% in Canada and Japan, 76% in Luxembourg) belie their individual small size (Ayyagari, Beck & Demircug-Kunt 2003). At a micro level, SMEs are popularly looked upon by governments as a keystone to regional economic and community regeneration. Since the early 1980s, considerable restructuring particularly in large firms (e.g., rationalising, downsizing, outsourcing and job exporting) has seen a general shedding of jobs (Storey 1994). It is primarily through the growth of SMEs that employees made redundant by large firms have been absorbed back into the work force (Storey 1994; Frank & Landstrom 1998). Through a multiplier effect, this employment provides income to regions which stimulates local economic activity which in turn, drives wealth and further creation of employment (Walker & Webster 2004).

In contemporary commerce, SMEs dominate many important industry sectors such as retailing, service and construction; and form crucial forward and backward links in the supply chain of large scale capital intensive manufacturing industries such as automotive, mining, marine and defence (Robinson & Pearce 1984; Abdullah 2000; Wang, Rowe & Cripps 2006). Additionally, their presence alongside large firms provides important competitive and structural balance to industries and marketplaces that would otherwise be dominated by a few large players (Beaver & Jennings 2000; Peacock 2004).

In terms of entrepreneurial activity, SMEs often occupy fragmented or niche markets which large firms either cannot economically enter or are reluctant to enter because of 'unattractive' risk-return considerations (Brouthers, Andriessen & Nicolaes 1998). And despite their generally limited capacity for research and development (R&D) investment, SMEs contribute positively and disproportionately to innovative activity (Acs & Audretsch 1990). For example, Peacock (2004) reported that SMEs in Australia contributed 54% of all 'significant technological innovations' even though their share of R&D investments represented just 20% of technical innovation expenditure. Perhaps as a result of the association with entrepreneurial activity and innovation, SMEs serve an important 'seedbed' role for the growth of new industries and the establishment of future large companies (Howard 1997).

The overall importance of SMEs is summarised by Ibielski (1997 quoted in Hashim & Abdullah 2000, p. 193) as follows:

*"[SMEs] are mighty minnows, reflecting the competitive spirit that a market economy needs for efficiency; they provide an outlet for entrepreneurial talents, a wider range of consumer goods and services, a check to monopoly inefficiency, a source of innovation, and a seedbed for new industries; they allow an economy to be more adaptable to structural change through*

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*continuous initiatives embodying new technologies, skills, processes or products.”*

### **STRATEGIC PLANNING AND SMEs**

In spite of their many contributions, SMEs are “plagued by high failure rates and poor performance levels” (Jocumsen 2004, p.659). To ensure sustained development of the sector, it is vital to understand why some SMEs are more successful than others. Comprehensive reviews of extant studies into SMEs (e.g., Lurie 1987; Schwenk & Shrader 1993; Miller & Cardinal 1994; Hormozi, Sutton, McMinn & Lucio 2002) suggest that, *ceteris paribus*, a key determinant of business success lies in the absence or presence of strategic planning.

Strategic planning is concerned with the setting of long-term organisational goals, the development and implementation of plans to achieve these goals, and the allocation or diversion of resources necessary for realising these goals (Stonehouse & Pemberton 2002; O'Regan & Ghobadian 2004). In a practical sense, strategic planning is about competitive advantage. This is encapsulated by Ohmae (1983 in O'Regan & Ghobadian, 2002, p.664) who stated that the purpose of strategic planning is to enable a business “to gain as efficiently as possible, a sustainable edge over its competitors”.

This is supported in the empirical literature. With respect to performance, strategic planning is generally more common in better performing SMEs. For example, SMEs that engage in strategic planning (compared to those that do not) are more likely to be those that achieve higher sales growth, higher returns on assets, higher margins on profit and higher employee growth (Bracker, Keats & Pearson 1988; Berman et al. 1997; Carland & Carland 2003; Gibson & Casser 2005).

Moreover, SMEs that engage in strategic planning are also more likely to be those enterprises that are more innovative, that have more newly patented products, that employ new process and management technologies, and that achieve international growth (Upton, Teal & Felan 2001; Beaver & Prince 2002; Stewart 2002; Gibbons & O'Connor 2005). Perhaps most importantly, SMEs that engage in strategic planning are less likely to be those that fail (i.e., involuntarily wound up) (Gaskill, van Auken & Manning 1993; Perry 2001).

While it is certainly true that SME performance success is driven by more than strategic planning alone, findings generally support the contention that there are, on balance, greater advantages to planning than not planning. However, given all the evidence, it is well-recognised that strategic planning is rare or non-existent in the majority of SMEs. In practice, SMEs tend to orientate towards short-term operational rather than long-term strategic issues, and decision-making tends to be reactive rather than proactive (Jones 1982; Gaskill, van Auken & Manning 1993; Brouthers, Andriessen & Nicolaes 1998; Stonehouse & Pemberton 2002; Mazzarol 2004). In SMEs that claim to plan, plans are frequently *ad hoc* and intuitive rather than formally written, and provide little basis upon which business performance can be measured or analysed (Kelmar & Noy 1990).

The reason why some SMEs ‘do’ strategic planning while others do not is generally not well understood (O'Regan & Ghobadian 2002). Accordingly, the thrust of research to explain the lack of strategic planning in SMEs has focused on identifying the ‘barriers’ that discourage or prevent planning. For example, Robinson and Pearce (1984) suggested that a lack of time, a lack of specialised expertise, inadequate knowledge of the planning processes, or a reluctance

to share strategic plans with employees and external consultants are detrimental to and compromise strategic planning in small business. Others have proposed that environmental uncertainty or turbulence (Shrader, Mulford & Blackburn 1989; Matthews & Scott 1995; Yusuf & Saffu 2005), size of business (Stonehouse & Pemberton 2002), type of industry (Shrader, Mulford & Blackburn 1989), internal implementation barriers (O'Regan & Ghobadian 2002) and business life-cycle/stage of development (Berry 1998) may account for what Sexton and van Auken (1982, p.25) described as the “anemic level” of strategic planning in SMEs. An overview of this research thrust is modelled in Figure 1.

Figure 1 shows that strategic planning is hampered by various barriers to planning which result in (and explain) the lack or low levels of strategic planning observed in the majority of SMEs. As described above, the thrust of research is on identifying organisational planning barriers. The implication is that an understanding of barriers will allow “more careful and accurate encouragement” to other firms on how such barriers can be overcome, thereby increasing the overall levels of strategic planning in SMEs (Robinson & Pearce 1984, p.135).

This article raises two fundamental concerns with what is a “simplistic” approach to an “extremely complex problem” (Ogunmokun, Shaw & FitzRoy 1999, p.191). First, the level of analysis conducted in relation to the problem is at the level of the firm (in contrast to the level of the individual). Second, the approach implicitly assumes a profit or growth maximising objective for SMEs (illustrated in Figure 1 by dotted lines).

Figure 2 presents the alternative approach proposed in this article which addresses these concerns; namely, that the level of analysis is conducted at the level of the individual (i.e., owner-manager), and that the motivations of owner-managers for being in business are taken as the starting point for investigations into the strategic planning behaviours of SMEs (rather than an *a priori* assumption of profit or growth maximisation goal).

The development of the model is based on the rationale that most SMEs operate as “extensions” of their owner-managers (LeCornu, McMahon, Forsaith & Stanger 1996, p.2). According to Mintzberg (1984 in Shepherd & Wiklund 2005, p.6), actions and decisions in SMEs revolve around the owner-manager such that “its goals are [the owner-manager’s] goals, its strategy [the owner-manager’s] vision”. Therefore, questions concerning the strategic (or other) vision of the business need to be investigated in relation to the private motivations and ambitions of the individual (Cliff 1998; Galloway & Mochrie 2005). These motivations and ambitions may be influenced by education, gender, ethnicity, social marginalisation, family commitments, personal aspirations or a multitude of other psychological, sociological, demographic and environmental considerations (Beaver & Jennings, 1995).

FIGURE 1  
Extant Approach to Explain Lack or Low Levels of Strategic Planning in SMEs

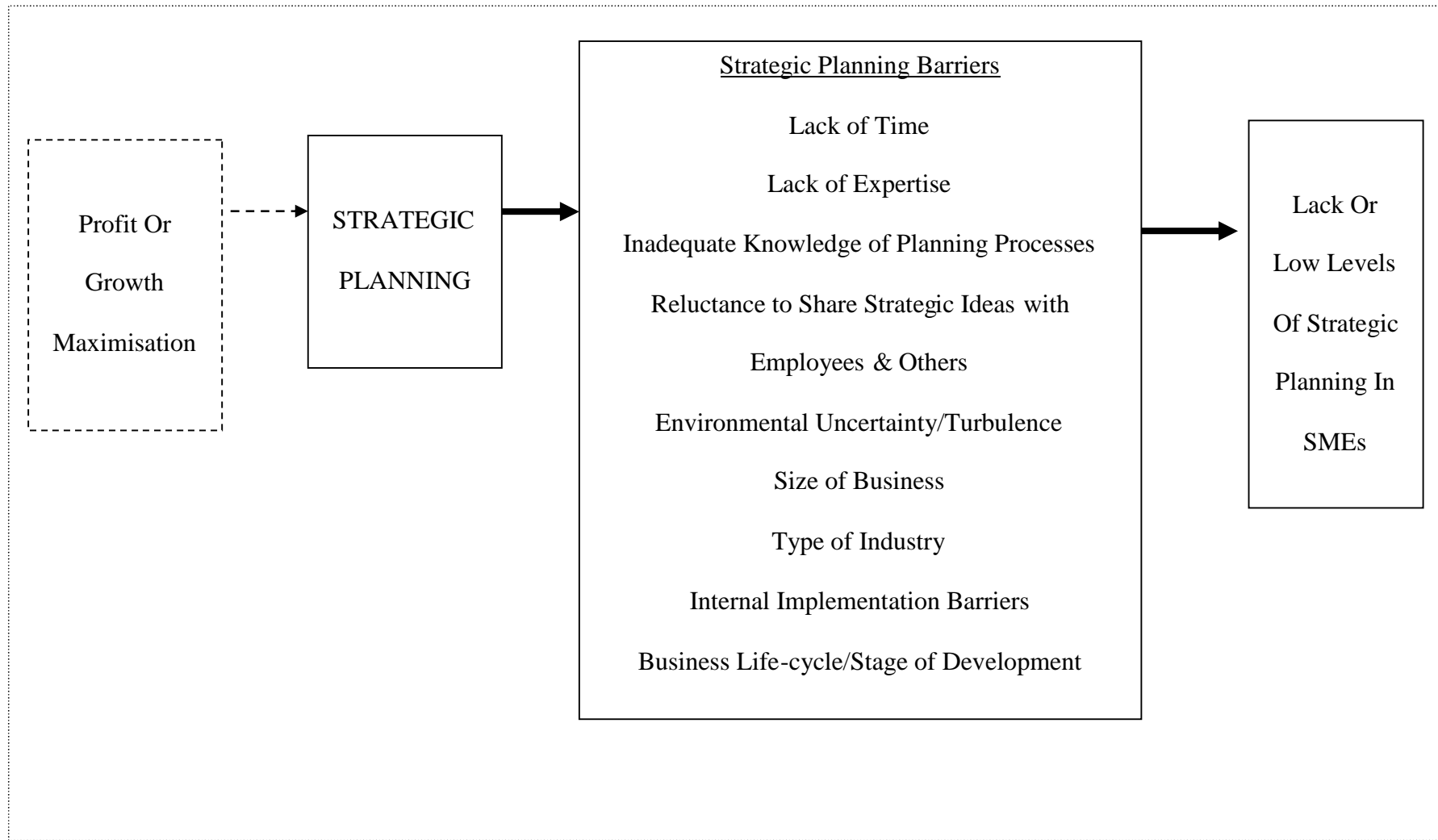
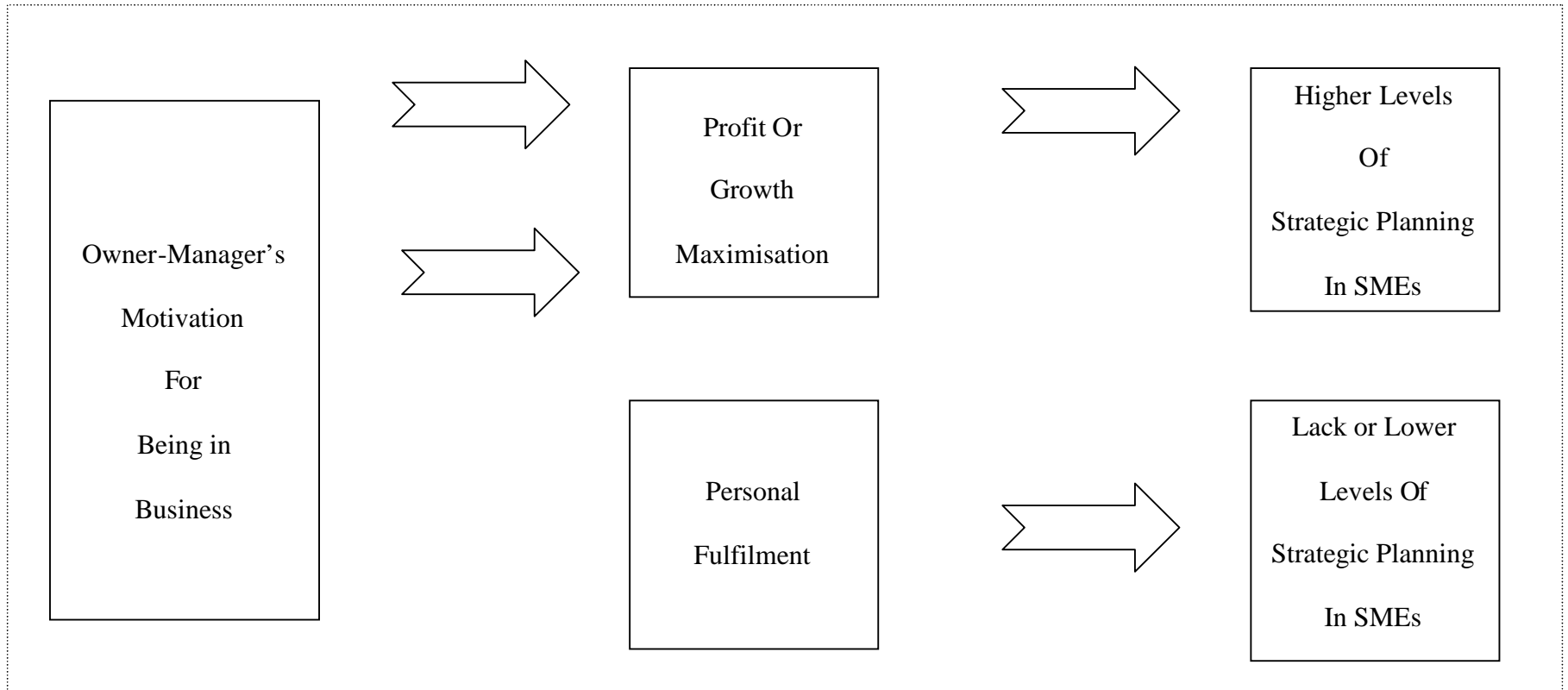


FIGURE 2  
Proposed Approach to Explain Lack or Low Levels of Strategic Planning in SMEs



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Accordingly, this article postulates that initial motivations for being in business determine whether owner-managers will pursue either (a) profit/growth maximisation goals or (b) personal fulfilment goals. This choice of goals subsequently determines the strategic imperatives of the business. Given that strategic planning is recognised as a vehicle to drive business development, competitiveness and hence, economic success (Vicere 1995), it is proposed that owner-managers pursuing a profit/growth maximisation agenda will be more inclined to engage in strategic planning. Conversely, those pursuing personal fulfilment objectives will be less inclined. Figure 2 illustrates this conceptual relationship between business ownership aspirations and the level of strategic planning in SMEs.

In essence, this article argues that most SMEs do not strategically plan because the majority of owner-managers do not pursue profit/growth maximising goals and therefore, do not perceive the need to plan to any great extent, least of all at a strategic level. Given that only a small percentage of SMEs (5% to 10%) are ‘gazelles’ or ‘high flyers’ (i.e., dynamic enterprises with high growth or expansion intentions) and that the majority are typically ‘trundlers’ (i.e., enterprises that just survive) (Storey 1994; Peacock 2004), the proposed alternative has intuitive appeal since it provides a *prima facie* explanation for the general lack of strategic intent and strategic planning activities observed in many SMEs. The next section argues the issues raised above.

### **STARTUP MOTIVATIONS AND SMEs**

Storey (1994, p.154) observed the much of the extant research assumes that the majority, if not all, of SMEs “wish to grow but are prevented from so doing” by “barriers”. This assumption is particularly robust in the studies of SME strategic planning discussed above and is underscored by an economics perspective where profit maximisation is seen as classic economic ‘rational behaviour’ and business growth as a natural pursuit to achieve this (Shepherd & Wiklund 2005).

However, while concerns regarding profitability are necessary to ensure the viability and continuity of SME operations, profit maximisation *per se* often ranks far behind more personal, non-economic goals such as autonomy or independence, personal satisfaction and achievement, work flexibility and lifestyle, and contribution to society as drivers for owner-managers to be in business (Curran & Stanworth 1982; LeCornu et al. 1996; Liang 2003; Walker & Brown 2004).

The pursuit of personal non-economic goals is something for which some owner-managers are willing to sacrifice the prospect of greater financial rewards to achieve (Brush 1992; LeCornu et al. 1996; Collins-Dodd, Gordon & Smart 2004; Lewis 2004). Rather than ‘economic rationality’, this behaviour is more aptly described as “economic irrationality” (Holmes 2001, p.6) and a strong argument can be made that SME owner-managers “are certainly not economic [individuals]” (Schumpeter 1946 in Swedberg 2000, p.16). This is substantiated by studies into the growth aspirations (or lack thereof) of SME owner-managers. For example, Rosa, Carter and Hamilton (1996) reported that only a third of SMEs in their study had intentions to expand; Gray (1998) reported that 33% of SMEs in their study could be classified as growth-orientated while the remaining 67% were either growth-averse or were exiting/retiring or selling their businesses; and, Holmes and Zimmer (1994), and Sexton (1989) noted



that most SMEs were interested only in 'limited', 'incremental' or 'satisfactory' long-term growth.

Clearly, assumptions regarding SMEs' pursuit of profit and growth maximisation in the economic rational sense need to be challenged, as do assumptions that SMEs do not strategically plan because they are prevented from doing so by planning 'barriers'. It is possible that a more fundamental explanation for the apparent lack of strategic planning in SMEs may be closely related to owner-managers' personally defined 'non-rational' motivations for being in business for which strategic planning is perceived as unnecessary.

Motivations for being in business are complex and often, business ownership is inextricably tied up with the personal lives of owner-managers and their families (LeCornu et al. 1996; Culkin & Smith 2000). Broadly, motivational factors can be categorised as either 'pull' or 'push' (Cooper & Dunkelberg 1986; Brockhaus 1987; Hamilton 1987; Buttner & Moore 1997; Hughes 2003)—'pull' factors are associated with owner-managers having a strong positive internal desire go into small business; 'push' factors are linked to similarly strong desires but based on external negative reasons.

The most common 'pull' factor cited in the literature is independence or wanting to be one's own boss. Additional 'pull' reasons have been the desire to achieve job satisfaction, the desire to have a flexible lifestyle, the desire for personal challenge; a need for personal development, a need for approval, a wish for autonomy and a desire to use existing experience and knowledge. These reasons are internally focused and are not generally related to a financial imperative. Although personal financial motives can exert a 'pull' force, this is more fundamentally related to the ability of owner-managers to take control of their lives and 'do something for themselves'. Overall, financially-framed motives are often secondary to more personal and internal drivers as factors for being in small business (Mason, Pinch & Storey 1991; Shane, Kolvereid & Westhead 1991; Rosa, Hamilton, Carter & Burns 1994).

In contrast to 'pull' factors, 'push' factors centre on an element of frustration for individuals with being in paid employment. Frustrative factors such as constraints of being in a subservient role, perceived lack of opportunity for advancement, avoidance of low-paid occupations and escape from supervision typically 'push' individuals to leave paid employment and venture into business for themselves.

An important 'push' factor in business ownership is job loss. Redundancies or retrenchment often create both huge emotional and financial crises which are compounded when individuals are unable to find alternative employment over prolonged periods. In such instances, businesses are started as a means for owner-managers to be self-supporting which, in some cases, create distressed, unwilling or reluctant entrepreneurs (Keeble, Bryson & Wood 1992; Stanworth & Stanworth 1997). In a parallel situation, racial or ethnic minorities and new immigrants are often frustrated by 'social marginalisation' in finding employment (Holmes & Zimmer 1994; Blackburn & Ram 2006). Marginalisation factors such as unaccredited education qualifications or professional skills, limited language abilities and discrimination by the 'non-ethnic' labour force typically restrict most 'mainstream' employment opportunities and 'push' this group of individuals to be self-employed

(Jurik 1998; Johnson 2000). In these examples, many owner-managers are simply 'buying' employment. Rather than profit maximising, such enterprises are often associated with low growth and profitability (Smallbone, Bertotti & Ekanem 2005).

With respect to both 'pull' and 'push' factors, a key outcome for individuals going into business is a positive change in personal circumstance and affective 'windfalls' such as the independence gained from being one's own boss, personal freedom, personal satisfaction, a less rigid, more flexible lifestyle, and more job satisfaction are more likely to be of greater importance than rational economic goals (Brush 1992; LeCornu et al. 1996; Wiklund, Davidsson & Delmar 2003). This is substantiated by Fielden, Davidson & Makin (2000) who found that although a large proportion of their sample (88%) initially listed making money as a primary goal for being in business, further probing revealed that, for at least 71% of owner-managers, job satisfaction, greater independence, creating opportunities, encountering new challenges and pursuing one's own interests were criteria which were of real importance to them.

Broadly, affective outcomes are linked to intrinsic lifestyle issues which are outside conventional economic paradigms. These affective outcomes are also referred to as 'psychic rewards' (Owen, Carsky & Dolan 1992) or 'psychic income' (Wheelock & Baines 1998) and are often important for people who have not necessarily been as financially successful as economic theory assumes or expects businesses to be. As Jennings and Beaver (1997, p. 63) stated:

*“Contrary to popular belief, and a great deal of economic theory, money and the pursuit of a personal financial fortune are not as significant as the desire for personal involvement, responsibility and the independent quality and style of life which many small business owner-managers strive to achieve. Consequently, the attainment of these objectives becomes one of the principal criteria for success, as defined by the entrepreneur/owner-manager.”*

## **IMPLICATIONS**

Returning to the issue of understanding why the majority of SMEs do not engage in strategic planning, the basic thrust of research undertaken to date has been to identify barriers to planning. As Gibson and Cassar (2005) observed, research is typically driven by a normative desire to establish 'best practice' management activities for SMEs to implement. Given that 'real world' relevancy and application of research is important, it is vital that researchers in the strategic planning area recognise that the motivations of owner-managers are fundamental to the basic operations of SMEs. These motivations influence such things as managerial style, organisational structure and culture, decision-making, pattern of business development and the level of strategic activity (i.e., whether and how much strategic planning is carried out) within the enterprise (Beaver 2003).

In reality, many SME owner-managers are in business to pursue primarily personal, non-economic goals and most have "capped" or "limited" desires in relation to business performance and expansion (LeCornu et al. 1996, p.11). Beyond a certain point, these owner-managers will deliberately ignore opportunities to increase profits and growth and, likewise, deliberately ignore any exultation to apply 'best practice'

management activities (including but not limited to strategic planning) to pursue these outcomes (Storey, 1994; Beaver & Jennings 2000; Shepherd & Wiklund 2005).

In relation to this special issue's theme of enhancing the capabilities of SMEs, this article argues two points. One, that the antecedents of planning have not been properly accounted for and; two, that studies investigating the lack of strategic planning in SMEs have focused inappropriately on solely economic outcomes. Although often studied as a collective, SMEs are in reality a very heterogeneous group of enterprises with diverse reasons for being. This article proposes that it is necessary to first differentiate "the entrepreneur from the enterprise", and "the entrepreneur from the owner-manager" (Beaver & Jennings 1995, p.98). It should not be taken for granted that all owner-managers will naturally engage in strategic planning simply because it is advantageous to the performance of SMEs and "numerous researchers... advocate [it]" (Miller & Cardinal 1994, p.1649). This implies that a targeted approach (e.g., one that identifies and selects only SMEs with strong growth intentions for 'enhancement' assistance in strategic planning or other areas of need) is needed if, for example, governments, researchers and others interested in the sustained development of SMEs are to effectively encourage and support growth of the sector.

### **SUMMARY**

This article has highlighted inherent problems with how extant research approaches the apparent problem of why SMEs do not strategically plan. Ownership motivations are central to understanding the planning practices in SMEs and these are an alternative explanation to the common focus on barriers to strategic planning to account for the lack or low levels of such planning in many SMEs. The article argues that levels of strategic planning are higher in SMEs which have owner-managers who are growth orientated and lower in those which have owner-managers who pursue non-economic personal agendas (Figure 2). What should be acknowledged is that many owner-managers of SMEs do not want to grow, are happy with staying small and at one end of the continuum, some are simply 'buying' themselves employment. This is not necessarily a bad thing but highlights that many businesses are not 'entrepreneurial' and will never engage in active growth activities including strategic planning. Consequently, ownership motivation—not organisational barriers to planning—must be taken as a starting point to understanding and 'solving' the issue of why most SMEs do not engage in strategic planning.

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