

BABES-BOLYAI UNIVERSITY CLUJ-NAPOCA
Faculty of Economics and Business Administration

DOCTORAL THESIS

– SUMMARY –

STRATEGIC MANAGEMENT PROCESS IN SMALL AND MEDIUM SIZED ENTERPRISES

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CLUJ-NAPOCA
2011

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Keywords:

Strategy, strategic planning, strategic management process, strategic analysis, strategy formulation, strategy implementation, control / evaluation of the strategy, performance, small and medium sized enterprises, North-West Region

INTRODUCTION

SMEs play an important role in economic and social development as they generate a significant share of GDP in any country (approximately 70% in Romania), provide a very important number of jobs (63.6% in Romania in 2008 according to the Small Business Act for Romania of 2009), generate a large proportion of technical innovations, ensure the creation of the middle class, create prerequisites for professional, economic, social and cultural achievement of the population.

In a developing economy such as Romanian economy, this sector is considered to be a source of innovation, flexibility and economic development. Due to insufficient resources and strong competition that characterizes today's economic environment, SMEs are characterized by strong volatility. Strategic planning process which develops and implements decisions on the future direction of the organization is vital for the survival of any organization because it helps companies adapt to changing environment and is applicable to all management levels and all types of organizations (Kerzner, 2001 , p. 15).

The use of strategic planning has favorable effects: improves performance, helps to improve management efficiency, which translates into a better ability to identify and capitalize on market opportunities and by encouraging employees to have a positive attitude vis-à-vis the change.

Skrt and Antocic (2004, p. 107) argue that the strategic planning (thinking) became mandatory for entrepreneurs in the context of global competition, technological change and market dynamics. Antocic and Hisrich (2004, p. 518) point out that strategic decisions are crucial to ensure heterogeneity of organizational behavior and the creation of value while being an important means to generate new value. Delmar and Shane (2003) argue, through an empirical study, that planning increases the chances of survival of a business, improving the product development process and also the organization of the newly created companies.

For decades research in strategic management have focused on developed economies, particularly the U.S. and Europe (Welsh, Dragusin, 2009) and less on developing economies. In addition, Romania, the studies (or their results) on the strategic activities of SMEs are either lacking, limited or not known. This study aims to contribute to the removal, at least to some extent of this shortcoming.

Because of the importance of SMEs, and of the benefits of strategic planning for their survival and performance and the lack of studies in this respect in Romania, this paper aims to promote strategic planning as best practice for SMEs to improve chances of survival and to obtain performance.

Given the complexity of strategic planning process in general, and the purpose of the present research, in particular, it can be outlined two fundamental objectives of this doctoral thesis, as follows:

- 1) Presentation of the strategic planning activities carried out by SMEs in the North-West Region, and the investigation of the extent to which these companies engage in strategic planning activities;
- 2) Examine the existence, the nature and the intensity of direct and indirect, general and partial links, of strategic planning in general, and the components of this process, in particular, on the one hand, and performance indicators reflected indicators such as turnover dynamics, number of employees dynamics, goals' achievement, on the other.

To achieve the above mentioned two main objectives were defined the following derived objectives:

- a. identify specific strategic planning activities undertaken by SMEs;
- b. the level of formalization of strategic planning activities;
- c. identify specific strategic management tools used by small and medium
- d. identifying and quantifying correlations between characteristics of SMEs identified by size, experience, main field of activity, and strategic planning activities undertaken, in part and as a whole;
- e. identify correlations between different elements of the strategic planning process;
- f. identify general and partial correlations between strategic planning and the components of this process on the one hand, and firm performance, on the other hand, with the baseline performance indicators such as turnover dynamics, the

- number of employees dynamics, level of objectives achievement, level of perceived performance ;
- g. promote strategic planning as best practice to ensure business competitiveness;
 - h. contribute to the Romanian literature on strategic planning in SMEs.

LITERATURE REVIEW

The first seven chapters of this doctoral thesis are allocated literature study. This section highlights the theoretical contributions of this paper and the current state of knowledge in the field. In the paper was assigned a chapter to each stage of the strategic management process aimed at clarifying concepts and the presentation of tools and methodologies for creating the premises of practical application by the entrepreneurs / managers of small and medium-sized chance successful.

Chapter 1: Strategic management process

This first chapter was aimed at achieving an introduction to the topic "The process of strategic management." First we aimed to present the concepts of strategy, strategic planning, strategic management, strategic thinking and also tried to determine the relationship between strategy, strategic planning and strategic management and between planning and strategic thinking. Strategy is a plan of action and the main way to achieve organizational goals and objectives, leading to improved long-term performance of the company. Planning and strategic thinking are "distinct but interrelated and complementary processes of thinking" that have to support each other for an effective strategic management. Strategies as results of strategic thinking need to be operationalized through convergent and analytical planning.

Secondly we present the characteristics of three models of approach to strategic management (entrepreneurial, adaptive, planned) that capture how business environment is perceived, the evaluation of strategies, decision-making characteristics, perceptions of future of the company, keeping control strategy. Another issue discussed was the dynamic nature of the process that has become a necessity in an constantly changing environment that requires a continuous monitoring and adaptation to environmental challenges. For a dynamic approach to strategy development process, it should be treated as part of

individual responsibilities in the organization and not as a core function. Thus, the quality of knowledge used in formulating the strategy will be substantially improved and the duration of implementation of the strategy will be much reduced. Strategy formulation and implementation should be viewed as continuous processes of learning and the quality of strategy depends on the learning mechanisms of the organization.

Next we have presented several models of strategic management process found in literature. The opinions of the authors on components of the process differ, not necessarily being contradictory, the differences consisting mainly in the number of components included in the process. We propose a model of dynamic strategic management process, which involves four components: *strategic analysis* involving internal and external environment analysis to identify strategic factors that will influence the future of the company, *strategy formulation* aimed at establishing the vision, mission, long term objectives, generating and identifying strategic options to strengthen the competitive position of the company, *strategy implementation* that requires building an organization capable of performing a successful strategy, setting budgets, development of administrative support systems, building performance reward systems, organizational culture model to match the strategy and *strategic evaluation and control* that aims to highlight and generate solutions to correct deviations from standards while evaluation's is assessing the overall effects of the implementation strategy and their compatibility with development objectives of the company.

The chapter concludes with the presentation of the main advantages and reasons why the managers should adopt strategic management.

Chapter 2 Strategy and strategic management particularities in small and medium enterprises

In this chapter we proposed to identify small and medium-sized enterprises' features and management characteristics of this category of firms. Many researchers argue that SMEs are not only small-scale versions of large firms and therefore management methods and techniques applied in large companies will not work in small firms. This supports the need to study and identify the distinctive characteristics of SMEs in order to establish functional management methods for them.

The first part of the chapter was devoted to the definition of SMEs and identification of their role in the economy. SMEs play an important role in countries' development. They are the most common type of company, in the world there are millions of SMEs, these being the most important sources of economic development.

Next we considered necessary to present the distinctive characteristics of SMEs compared to large firms. The existence of small firms is strongly influenced by the personality of its owner-manager and his/her behavioral characteristics. Such companies are characterized mainly by small size leading to specialized firms, to focus on one market or a small number of markets having a reduced market share and therefore virtually being unable to influence prices. The level of environmental uncertainty is much higher for these firms, both entry and exit from the market bringing them a series of obstacles. Small and medium companies enjoy several advantages: they are flexible, adaptable to change, the small size favors faster decisions and their implementation, the working environment within SMEs is a better one with the closer relations between employees and between employees and managers-owners.

Management functions have also particularities in small and medium sized enterprises, the third part of the chapter surprising the specificity of planning, organization, motivation, coordination and control and evaluation in such companies.

The last part of the chapter deals with the issue of strategy and strategic management in small and medium enterprises. We may conclude the following about the strategy: in many small and medium sized enterprises strategies are intuitive or empirical that are not outlined in a written form, the owner-manager's personality has an impact on strategy, between his/her objectives and the strategy there are similarities, there is a rejection and an indifference in the use of strategic management which is mainly due to lack of knowledge in this area of both managers and employees, strategic horizon is limited mainly due to higher uncertainty faced by these firms, strategy must be more flexible in small and medium-sized enterprises to allow rapid adaptation to environmental changes.

It is suggested in the literature the idea, that we endorse also, that the type of planning used by SMEs depends on the stage of development of the company, this type of activity evolving toward greater formalization and sophistication with the sequence of steps in the life cycle of firms. Also, as the complexity of the activities and functional areas increases, strategic management will evolve from being simple financial plans and budgets to planning based on forecast and outward planning. In the latter stage managers begin to

think strategically, using the formal techniques of strategic management. Progress towards strategic orientation and strategic management using specific tools must be made more sophisticated once with the development of the firm to ensure its survival and its long-term success (Ward, 1988; Stone, 1999, Hitt and Ireland, 2000, Wolf, 2000 Analoui and Karami, 2003).

Regarding the strategic management process in small and medium sized enterprises we support authors' Analoui and Karami (2003) proposal on a dynamic model of strategic management that is centered around creating value for customers consisting of four phases: *awareness* - understanding the strategic situation; *strategy formulation* - preparation of appropriate strategies, *strategy implementation* – application of selected strategy and strategy control and evaluation - revision and learning for future development.

Chapter 3 Strategic analysis

The first part of the chapter was devoted to the analysis of the three components of the external environment - *general environmental analysis*, *industry and its attractiveness analysis* and *competitive analysis*. Although the external environment is dynamic and complex, its monitoring is very important, allowing identification of opportunities and threats. A firm can not control the external environment but may use information about the environment for choosing the most appropriate strategic alternatives.

PEST analysis involves the following aspects: Political, Economic, Sociocultural and Technological environment in which the company operates, being a relatively simple tool, easy to use by small and medium enterprises also. Following analysis, small and medium sized enterprises can identify a range of opportunities and threats that may especially affect their activity in the future, a very important aspect for these companies which are vulnerable to environmental changes due to their limited resources.

The industry situation analysis focuses on several key issues: the structure of industry in terms of the strategies used by the firms that populate it, driving forces leading to profound changes in the industry, establishing mechanisms for cost price and profit, the determinants of success; problems faced, the prospects for development and assessment of industry attractiveness.

The result of industry analysis consists in value judgments on: firm position within the industry, the extent it integrates in the trends determined by industry-specific driving forces, its competitive strength, its ability to harness the existent or potential opportunities

and to face threats, the extent they possess dominant success factors, the ability to avoid the action of factors that make the industry unattractive. Understanding the operating environment can help the company owner - manager to formulate an effective strategy to position the company for success and make effective use of limited resources of small companies (Darnay, Magee, 2007).

The five competitive forces model of Michael Porter are: threat of new entrants, threat of substitute products, bargaining power of suppliers, bargaining power of consumers, the rivalry between existing firms. Studying these forces allows the firm to identify an attractive position within the industry. Compared with the general environment, industry environment has a more direct effect on the firm's strategic actions.

Analysis of competitors is an important part of the external environment analysis and provides firms information on strategic intent, current strategy and the most important strengths and weaknesses of competitors.

The second part of the chapter aims at presenting the main aspects of *the internal environment analysis*. To develop and implement the best strategy, managers must know the resources, core competencies and capabilities of the firm. The traditional instrument used in this process is *SWOT analysis*. This tool has, however, some limitations, related to the depth of analysis and the risk of losing sight of key issues. To offset these limitations we propose two other tools that allow managers a more thorough, systematic and objective internal resources and capabilities: value chain analysis, which involves the primary and support activities that contributes to the products / services covered by company's activity and resource-based view of the firm which assumes that firms base their competitive advantages the unique resources, capabilities, skills they have or can develop.

Chapter 4: Strategy formulation process

Dynamics and uncertainty in the operating environment require companies to formulate strategies to ensure the future success of the company, which are the result of a process of formulating strategy. A strategy is considered good according to the results it produces, not by the process that generated it. Successful companies adopt a process that fits your business, culture and operating context of the company.

Strategy formulation process must be adapted to current needs of the organization. Manager's task is to understand the process that generated strategies in the past and find a way for the development of the process in the future. Sometimes you need a new strategy

development process to bring new perspectives on the future of business and to distance oneself from accepted thinking patterns. The process should lead to solutions to ensure the future and to create the possibility of effective action, so it must lead to strategic thinking.

An effective process of formulating the strategy must be based on a critical analysis of the company and on past experience and to facilitate an effective and adaptive decision-making process. It also needs to formulate objectives, to ensure their understanding and of strategic priorities at all levels of company, to coordinate cascading objectives, indicators and actions from the top toward the base, providing a general consensus, motivate employees and to establish confidence that the implementation plans will lead to superior performance of the company.

The first element of the strategy formulation process is to establish the vision and mission of the company, an extremely important step in the economy of strategic planning process as they are the foundation on which the remaining components (stages) of strategic management process are being build on. The strategic vision means the representation of what an organization wants to be in the future consisting of a set of abstract ideas that directs the future development of the organization. A strategic mission is a statement of the sole purpose of the activity of an organization in terms of products and markets it will operate on using its core competencies.

Strategy formulation process also involves the establishment of organizational **objectives**. These transform the generalities of the mission's content into more specific commitments, usually they will address *what* to do and *when* to achieve the objective.

The final element of the strategy formulation process, with a major impact on the future of any company is to **identify strategic options**. On the extent to which the strategy chosen ensures objectives' achievement and is appropriate to operating environment depends the firm's chances to cope with competition. A classic model for identifying the most appropriate strategic options proposes the evaluation of strategic alternatives using three criteria, namely: *suitability, acceptability and feasibility*.

The **content of strategy** is a result of the strategy formulation process and an input to implementation process forming the link between the two stages of strategic management. A company's strategy must be related to its specific needs so that there can be a generally valid strategy. There are three levels at which a strategy can be established, we can talk about firm strategies, business strategies and functional strategies.

As regards the typology of strategies we classified the strategies according to the level that are developed for, the business and the company.

Business strategies are action plans that describe the company's intentions on how they will compete in an industry or market segment. We presented the characteristics, advantages and risks involved in each of the strategies cost leadership, differentiation, focused and integrated low cost and differentiation.

Firm strategies aimed at finding the most appropriate solutions to strategic problems posed by the overall activity of the company and its market presence. This category of strategies were presented: *focus strategy, market development strategy, product development strategy, horizontal integration strategy, innovation strategy, the strategy of diversification (concentric and conglomerate), collaboration strategies, mergers and acquisitions, restructuring strategy, international strategy.*

SMEs have a variety of strategic alternatives. There is no "best" strategy to bring the expected results in all conditions and for any company. Thus, we suggest that small and medium enterprises to adapt their strategies to market conditions, the strategic capability they own in order to secure long-term competitive advantages.

Chapter 5: Strategy implementation

This chapter covers the following aspects: importance and scope of strategy implementation, the strategy implementation framework, key success factors in strategy implementation, stages of strategy implementation and change management.

Implementation of the strategy is the most important element of strategic management process. A well-formulated strategy can create sustainable value only if successfully implemented, so effective implementation has a huge impact on the success of a company. Poor implementation leads to waste of time and energy.

Regarding the implementation of the strategy we can say that this stage of strategic management is the task of the staff, the involvement of employees and collective effort are determinants of success or failure of the implementation process. Strategy created by early involvement of the different functions since the an early stage will be much easier to "instil" because previously all the organization members had the opportunity to express dissatisfaction with the inclusion / non-inclusion of certain elements or ideas in the strategy. The implementation of the strategy is a task more difficult and time consuming than creating strategy. What makes this process so solicitant is the wide range of

management activities that need to be made, differences managers' approach of different activities, skills needed to launch initiatives and resistance to change to be exceeded.

We can talk about the four factors that ensure successful implementation of the strategy: culture, organization, human resources, control systems and tools. Main challenge for top management in terms of cultural context is setting the tone, pace and character of culture so as to favor strategic change that managers must implement. When referring to the organization, as a source of implementation problems or failure of implementation is that the granting of responsibilities is unclear, in addition responsibilities are divided among several organizational units, and they act only in their structure. Therefore relations between functions are critical in the implementation process. Human resource is a valuable intangible good and recent research shows that is becoming an increasingly important success factor in implementation. Implementation of strategic change requires trust, cooperation and leadership skills and of management and technical personnel. One issue is how managers assess performance during and after implementation. This assessment or control function is a key aspect of the implementation process. To give top management an acceptable safety that strategic initiatives can be executed and are implemented as intended, you need a control system to provide necessary information.

Strategy implementation can be achieved by a model that supposes four stages: pre-implementation, organization of the implementation effort, continuous management of the process of implementation, maximization of inter-functional performance. By understanding the challenges and pitfalls inherent in each stage, top managers can significantly improve the effectiveness of the implementation process.

In order not to jeopardize the strategic intent realization, there must be performed certain actions. It may be suggested a process of eight steps that can be pursued in implementing the change process as part of strategic change program.

All organizations have a shared set of values and beliefs that we call culture. Some of these values and beliefs evolve over time as the company grows and operates and the behavior models that help its development are better understood. Those who implement changes can not afford to ignore the culture of the organization when proposing direction change.

The various elements of organizations' design such as style, leadership, skills combine to provide organizational capability. It is very important that those who establish the organization structure to take into account the strategic intent and thus achieve the full exploitation of organizational capability. A weak structure determines those involved to

distort the structure and the systems to achieve the objectives that have been designated. In such situations people spend more time fighting the system than acting to achieve strategic intent.

Chapter 6 Strategy control and evaluation

Conditions taken into account when making strategic choices can evolve in different directions since the emergence of new threats and opportunities is a permanent phenomenon, often at a fast pace. Therefore, progress in implementing the strategy usually has a different pace than those in the initial strategic plan, positively or negatively. Given that the policies and procedures designed to guide the implementation of the strategy does not ensure full compliance of concrete results with the set standards the control and evaluation strategy is required.

Internal and external conditions dynamics and the continuity of strategy implementation requires an ongoing process of evaluation. Adjustments generate a new strategy that is implemented and in turn will be subject to a new process of evaluation and adjustment.

The overall objective of strategy evaluation is to determine whether it meets the strategic mission and objectives of the company, its available resources, changes in the internal and external environment. Quality of strategy evaluation, on which depends the quality of subsequent firm performance and its competitive position is determined by the methodological instruments used in the assessment process but, above all, the company's ability to autoevaluate and learn from their strategic experience.

Control activity is to ensure that the objectives are achieved efficiently. Control is needed to anticipate problems that may occur, to readjust the programs requirements for achieving the objectives of the company, to correct or update the programs when necessary.

A management tool that brings an improvement over the traditional management system of planning and control by that it incorporates other than financial instruments is the Balanced Scorecard. Today organizations compete in a competitive environment so complex that understanding their goals and methods used to achieve these goals is vital. BSC translates company's mission and strategy into a comprehensive set of performance indicators that provide a model for measuring strategic and management system. BSC complements financial indicators of past performance with the determinants of future performance. Indicators and objectives of this system derive from organization's vision

and strategy. Balanced Scorecard eliminates the lack of a systematic process of implementation and of obtaining feedback regarding strategy. Management processes built around a Balanced Scorecard allows alignment and focus action on long-term strategy. BSC is used as the basis for management in the information age.

RESEARCH METHODOLOGY

First, given the complexity of the studied phenomenon and its implications, namely the application of strategic management in SMEs and its impact on performance, the approach, the planning and the implementation of the present research were enrolled in an exploratory type research, aimed to determine the coordinates of a complex phenomenon of management, to define variables and assumptions that will underpin further research (Olteanu, 2000, pg.60), to clarify and generate a better understanding of the coordinates of the issues studied (Cătoi, 2002, pg.70). However, despite the largely exploratory nature of the study are partially met also descriptive issues by investigating the phenomenon analysed and determine its coordinates, explanatory, by analysing the development of the phenomenon in time, of the factors on which its progress is based on as well as the direction of their influence, and even conclusive, offering some conclusive data to help decision makers choose the most appropriate action, by studying the influences of the application of strategic management on performance of SMEs.

Secondly, taking into account the nature of the statistical population investigated - small and medium-sized enterprises from North-Western Region of Romania with engaged in international activities - and particularly its heterogeneity and lack of valid, complete and accurate data base, to include in a structured and exact manner the composition of this statistical population, a survey of probabilistic type, although ideal, was, and is impossible to implement. By default, the approach, planning and implementation of the present research were included in the reference type of a probabilistic, empirical study.

In reference of empirical research it has been adopted the sampling method called "snowball" (Pop, 2004, pg.91) specific to a specialized, closed or poorly defined population (SME with international activities from North-West Region) and based on the acquaintances of the first investigated subjects and their goodwill to give contact details of other possible subjects which fall within the population studied (because we did not have access to a complete and accurate database to we provide contact details of these companies).

The research method chosen was a questionnaire survey as we intended to question as many small and medium enterprises as possible, and collect a relatively large amount of information, the need for structured and standardized data collection and that the number of operators investigation was a significant (105 students in year 3, specialization Business Administration, education Day and ID form, the Faculty of Business at the University of Babes-Bolyai Cluj-Napoca). Since firms are generally reluctant to participate in such studies, in order to improve the response rate we chose "face to face" interviews which requiring the operators to travel to the firms and assisting the representatives of the companies (they were mainly administrator or chief financial) with the completion of the questionnaire.

Based on the research objectives and the study of literature we have built a questionnaire (Appendix 1) for data collection. The questionnaire was structured in two parts comprising a total of 13 questions. The first part of the questionnaire was devoted to collection of firms' identification data. The second part of the questionnaire was designed to gather information on the strategic actions undertaken by SMEs in the North-West Region. First we wanted to identify the specific type of strategic management activities which they carry being formulated questions for the following components of the strategic management process: mission, objectives, analysis of internal environment, external environment analysis, strategic alternative selection, strategy implementation, strategy control / evaluation. Another set of questions focused on general questions relating to strategic planning activities undertaken by the companies surveyed: the engagement in planning activities, the formalization of planning, use of external consultants in planning and tools used in strategic planning.

A series of questions in the questionnaire were designed as closed questions with single response quantified using a Likert scale with six possible answers, which asked respondents to agree with that statement. The reason of using symmetric scale was to eliminate the tendency of respondents to a neutral position.

Our sample includes 200 SMEs in the Northwest region (Cluj, Salaj, Bihor, Maramures, Satu Mare, Bistrita-Nasaud), 44.5 % of them have an experience of less than 5 years, 23 % have between 6 and 10 years of experience, 25 % have an between 11 and 15 years of experience and 7.5% have an experience of over 15 years. Of the companies surveyed, a total of 55 (27.5%) of SMEs are active in production, 75 (37.5%) are service firms, and 70 (35%) are trade firms. Regarding firm size, expressed as number of employees, 41% of companies fall into the category of micro (up to 9 employees), 41.5%

in the category of small (10-49 employees) and 17.5% in the category of medium companies (50-249 employees).

DATA ANALYSIS AND RESULTS INTERPRETATION

In order to analyze the collected data we used a computer program for statistical processing of data (SPSS version 16), with which the information collected "on the field" with the questionnaire were structured and systematized in an electronic database.

To establish the factors that influence strategic planning in the investigated SMEs and the influence of strategic planning on firm performance, we constructed two aggregate variables: aggregate indicator of strategic planning and aggregate performance indicator. The overall strategic planning variable represents the mean of seven aggregate variables, each of these variables being associated with a strategic planning process component: mission, objectives, internal analysis, external analysis, strategic alternatives selection, implementation and control and evaluation; each aggregate variable was determined as a mean of several Likert scale variables (with anchors strongly agree-1 and strongly disagree-6). The overall performance variable represents the mean of four ordinal variables that in our opinion reflect the level of performance: objectives level of achievement, level of perceived performance in 2009 compared with 2008, number of employees dynamics, turnover dynamics.

Given the type of the variables with which data were systematically collected, were made on the one hand, univariate analysis based on statistical indicators such as absolute and relative frequency, average, dispersion, etc., and on the other hand, bivariate analysis such as ANOVA parametric tests (for comparing averages of more than two independent samples), Hi-square nonparametric tests (to compare differences between groups), respectively, were calculated Pearson correlation coefficients and Spearman rank correlation coefficients .

General aspects of strategic planning activities

Questioned on the conduct of planning activities, 178 SMEs (89%) responded affirmatively, all medium-sized companies stating that they engage in planning activities. χ^2 test results indicate only a low intensity link between the company experience and business planning, the main field of activity and firm size do not influence the involvement in planning activities.

Table 1 *The link between characteristics of SMEs and development of planning activities*

	Company conducts planning activities			
	Pearson χ^2	df	Sig.	c
<i>Number of employees</i>	5.459	2	.065	.163
<i>Firm' experience</i>	8.972	3	.030	.207
<i>Main field of activity</i>	4.235	2	.120	.144

A percentage of 55.5% of the 200 surveyed SMEs, said they did not develop strategic plans in writing.

Table 2 *Elaboration of written strategic plans by firms' characteristics*

			Firm elaborates written strategic plans		
			No	Yes	Total
<i>Number of employees</i>	0-9	<i>Number of firms</i>	55	27	82
		<i>Percent</i>	49.5%	30.3%	41.0%
	10-49	<i>Number of firms</i>	49	34	83
		<i>Percent</i>	44.1%	38.2%	41.5%
	50-249	<i>Number of firms</i>	7	28	35
		<i>Percent</i>	6.3%	31.5%	17.5%
<i>Firm' experience</i>	less than 5 years	<i>Number of firms</i>	54	35	89
		<i>Percent</i>	48.6%	39.3%	44.5%
	6-10 years	<i>Number of firms</i>	23	23	46
		<i>Percent</i>	20.7%	25.8%	23.0%
	11-15 years	<i>Number of firms</i>	25	25	50
		<i>Percent</i>	22.5%	28.1%	25.0%
	over 15 years	<i>Number of firms</i>	9	6	15
		<i>Percent</i>	8.1%	6.7%	7.5%
<i>Main field of activity</i>	<i>Production</i>	<i>Number of firms</i>	22	33	55
		<i>Percent</i>	19.8%	37.1%	27.5%
	<i>Services</i>	<i>Number of firms</i>	47	28	75
		<i>Percent</i>	42.3%	31.5%	37.5%
	<i>Commerce</i>	<i>Number of firms</i>	42	28	70
		<i>Percent</i>	37.8%	31.5%	35.0%
Total	Number of firms	111	89	200	
	Percent	100.0%	100.0%	100.0%	

χ^2 test values show that company size (*Pearson $\chi^2=22.727$, $df= 2$, $N=200$, $sig.=0.000 <0.05$, $c= 0.319$) and main field of activity (*Pearson $\chi^2=7.484$, $df= 2$, $N=200$, $sig =0.024 <0.05$, $c= 0.190$) influences the elaboration of strategic plans in writing, while company's experience is not a general influence factor. Regarding the influence of the latter factor on formalizing the strategic planning process, we identified only a partial link**

of moderate intensity (Pearson $\chi^2 = 8.661$, $df = 3$, $sig = 0.034 < 0.05$, $c = 0.445$) for medium sized firms (50 - 249 employees), all medium-sized companies with experience from 6 to 10 years developing written strategic plans

Over 60% of companies that develop written plans stated they used them for less than two years and only 18% of SMEs said that the plans were used for more than 5 years. χ^2 test results indicate a statistically significant link between firm size, firm experience and field of activity on the one hand and the experience of SMEs on the use of written plans, on the other.

One of the characteristics of strategic planning refers to plans' time horizon. The results indicate a medium term of 1.88 years, over 57% of SMEs declaring that the timeframe for developing written plans is 1 year (median = 1). Over 76% of the companies draw up plans for a period of less than three years. These issues lead us to conclude that companies are more concerned with operational rather than strategic issues, only six companies stated that the timeframe of the plan is five years and one that aimed to draw up plans for more than five years. We applied χ^2 test to identify factors influencing the time horizon of plans. The results (Pearson $\chi^2 = 34.960$, $df = 15$, $N = 200$, $sig = 0.002 < 0.05$, $c = 0.531$) show a strong link between the time horizon and company experience. In terms of firm size and main field of activity the test revealed no influence on the time horizon of the plans.

Only a percentage of 16.5% of SMEs said they turn to outside consultants to develop strategic plans. This is due, on the one hand, to poor financial resources and on the other hand, to the reluctance of entrepreneurs to share their business information with people outside the company. χ^2 test results, indicate that in general, experience and field of activity do not influence firm decision to seek outside consultants to develop strategic plans, between firm size and use of external consultants there is a poor link (Pearson $\chi^2 = 7.063$, $df = 2$, $N = 200$, $sig = 0.029 < 0.05$, $c = 0.185$).

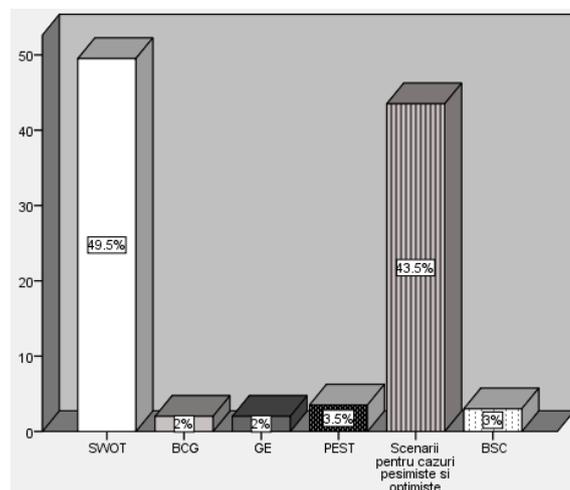
We sought to identify *factors that influence strategic planning*. Pearson's correlation coefficient shows that there is no link between firm size, main field of activity and its experience on the one hand, and aggregate indicator of strategic planning, on the other.

Table 3 Correlation between overall strategic planning and firm's characteristics

		<i>Overall strategic planning</i>	<i>Firm's experience</i>	<i>Main field of activity</i>	<i>Number of employees</i>
Overall strategic planning	<i>Pearson Correlation</i>	1.000	.080	-.066	-.072
	<i>Sig. (2-tailed)</i>		.261	.354	.311
	<i>N</i>	200.000	200	200	200

ANOVA test, however, confirms the existence of a positive link between aggregate indicator of strategic planning and development of written plans ($F = 7.595$, $df = 1$, $sig = 0.006 < 0.01$), firms developing written plans following a more rigorous and complete strategic planning process. The same test disproves a link between use of consultants and strategic planning ($F = 2.224$, $df = 1$, $sig = 0.137 > 0.05$).

Our study shows that the most commonly used tools are SWOT analysis (49.5%) and pessimistic and optimistic scenarios (43.5%). Conversely, the least used are General Electric and Boston Consulting Group matrix (2%). A percentage of 15.5% (31 firms) of surveyed SMEs stated they did not use any of the following strategic tools: SWOT analysis, BCG matrix, GE matrix, PEST analysis, pessimistic and optimistic scenarios, the Balanced Scorecard.



Graphic nr. 1 Use of strategic tools

Specific strategic management activities conducted by SMEs

Regarding strategic planning specific activities undertaken by companies participating in the study, the first aspect analyzed was the formulation of a mission. Over 83% of SMEs surveyed responded affirmatively. Most companies that do not formulate a

mission, are small companies, active in trade and with up to 10 years of activity. Formulation of a mission is not influenced by any one of the factors: firm size, main field of activity and firm experience, conclusion supported by χ^2 test results.

Table 4 *Corelation between mission formulation and firm's characteristics*

	The company has formualted a mission statement			
	Pearson χ^2	df	Sig.	c
<i>Number of employees</i>	2.577	2	.276	.114
<i>Firm' experience</i>	3.133	3	.372	.124
<i>Main field of activity</i>	2.496	2	.287	.111

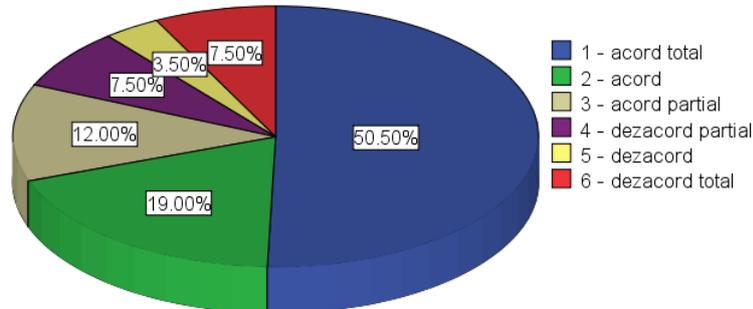
Study results indicate that the company mission (average 2.24) and firm values (average 2.415) are known by most employees, regardless of the main field of activity. Regarding the influence of values on the behavior of employees, the results indicate, in general, a partial agreement (average 2.65). ANOVA test results suggest that the main field of activity, firm size and firm experience do not affect knowledge of company mission and values or values' influence on the behavior of employees.

Table 5 *Correlation between firm's characteristics and level of knowledge of mission, of values and of the influence of values on employees' behaviour*

	Main field of activity			Company size			Company experience		
	df	F	Sig.	df	F	Sig.	df	F	Sig.
<i>Company's mission is known by the employees</i>	2	0.02	0.98	2	0.78	0.46	3.00	0.10	0.96
<i>Employees know compay's values</i>	2	2.11	0.12	2	0.21	0.81	3.00	2.13	0.10
<i>Company's value influence employees' behaviour</i>	2	0.04	0.96	2	0.25	0.78	3.00	1.44	0.23

Correlations identified by ANOVA test ($F = 8.168$, $df = 5$, $sig . = 0.000 < 0.05$) and Spearman rank correlation coefficient ($Rho = 0.474$, $p = 0.000 < 0.05$) lead us to conclude that SMEs formulate mission statements that include company values, and communicate them effectively among employees, leading to influence the behavior of employees towards achieving business targets.

A second component of the strategic management process that has been investigated is *objectives*. Most companies (70%) stated that objectives are known and understood by employees.



Graphic no. 2 Level of knowledge and understanding of objectives

ANOVA test indicates that the company size ($F = 3.719$, $df = 2$, $sig = 0.026 < 0.05$) and experience ($F = 2.726$, $df = 3$, $sig = 0.045 < 0.05$), together with good internal communication ($F = 6.953$, $df = 5$, $sig = 0.000 < 0.05$) are factors that influence employees' knowledge and understanding of objectives.

Regarding the future direction of business, none of the investigated SMEs have stated they intend to sell their business over the next two years, 58% of companies establishing as general objective the moderate expansion of business, 22.5% intend to maintain business to its current size, while 19.5% have established as overall objective for the next two years the rapid expansion of activity.

Using the χ^2 -test we sought to investigate the potential influence that firm size, main field of activity or company experience might have on the overall objective that the company sets for the next two years. The results (Pearson $\chi^2 = 18.813$, $df = 6$, $sig = 0.004 < 0.05$, $c = 0.293$) show that the company experience is the only factor that influences goal setting, firms having not yet reached maturity wishing for rapid expansion of activity.

On the matter of areas covered by goal setting, results show that: 78.5% of SMEs have set their targets for sales volume, 65% for the profit, 50.5% for the rate of return, 40.5% for return on investment, 39% for market share, 29% for capital growth, 18% for international expansion. The share of companies who do not set goals is small, with a value of 4.5%.

Applied tests show a weak link between firm size and targets on the profit, return on investment, capital growth, market share and international expansion. Field of activity

influences the sales volume targets and international expansion and firm experience affects only setting targets for capital growth.

We were interested to find out if plans were developed and implemented effectively. Results indicate that 59% of SMEs have achieved objectives partially, while only 31% of them have fully achieved their objectives over the past two years and a relatively small proportion of firms (10%) said they have exceeded objectives. χ^2 test results have denied a link between the main field of activity, size or experience of business on the one hand and the extent to which SMEs have achieved their objectives, on the other hand.

χ^2 test results indicate that there is a significant difference between companies that develop strategic plans in written and those not writing the plans regarding goals achievement in the last two years (65.5% of firms that have only partially fulfilled the objectives are firms that do not prepare written plans and 59% of companies who have achieved the objectives in full and 60% of companies have exceeded the targets are companies that have developed written plans). The same test indicates that consideration of the of opportunities' and threats' long-term implications influence the extent to which firms achieve their goals (80% of companies that have exceeded the targets are those that said they are considering these implications). The extent to which objectives are achieved is influenced by the evaluation of strengths' and weaknesses' long-term impact, as shown by χ^2 test results (85% of companies said they have exceeded their targets take into account this impact) .

χ^2 test confirmed the assumption that adequate resources influence the extent to which SMEs meet their targets (75% of companies that exceed their targets and over 52% of firms that fully meet their objectives allocate adequate resources for implementation of the plans).

The following aspects analyzed were relative to the internal environment. In general, surveyed SMEs have partly agreed (mean 2.745) with assessment of company strengths' and weaknesses' long-term impact. Strengths and weaknesses are determined entirely by reference to competition as shown by the responses' mean (2.79). We sought to identify a statistically significant link between the two aspects analyzed for internal environment analysis, on the one hand and the main field of activity, firm size and firm experience on the other side. Since the threshold values of statistical significance for

ANOVA test, do not fall below 0.05, for any pair of variables, we can not speak of statistically significant correlations.

Table 6 *Correlation between the appreciations of strenghts and weaknesses and firm's characteristics*

	Main field of activity			Company size			Company experience		
	df	F	Sig.	df	F	Sig.	df	F	Sig.
<i>Our firm evaluates the long-term impact of organization's strenghts and weaknesses</i>	2	1.266	0.629	2	0.14	0.87	3	4.649	0.162
<i>Strenghts and weaknesses of the company are determined by reference to competition</i>	2	4.353	0.261	2	0.57	0.56	3	7.699	0.066

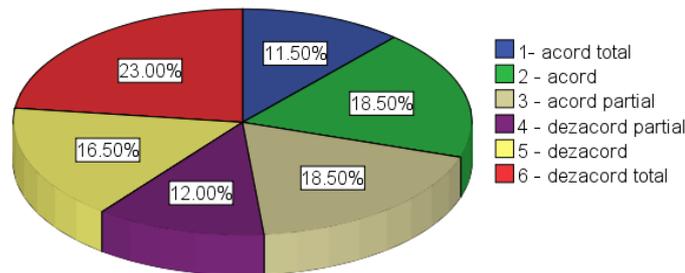
Regarding the **external environment analysis**, we questioned the SMEs about the influences that they take into account in developing strategic plans. There are three influences that are taken into account by over 50% of firms: national economic trends (64%), household income (58.5%) and technological development (57.5%). Regardless of the criteria taken into account (company size, main field of activity or company experience) the factor least considered in developing strategic plans is the relationship between management and trade unions, a predictable fact given the small size of the firms surveyed. χ^2 test results show that the main field of activity does not affect the general factors taken into account when developing strategic plans, with one exception, where technological developments factor is concerned. Company size only influences the consideration of the international political environment and firm experience does not influence the external factors taken into account in developing strategic plans, as shown by χ^2 test results.

We were interested to know whether SMEs take into account the long-term implications of opportunities and threats, responses indicating a partial agreement (mean 2.82). Another aspect examined was the existence of formal procedures for evaluating opportunities and threats of the external environment, companies expressing a partial disagreement in this respect (mean 3.79). Regarding the interest of companies in customer needs, the overall average is 1.62, this score indicating orientation toward the needs of SMEs' customers. According to companies surveyed not all customer needs are changing rapidly, with mean value of 3.66. The study results show that firms know only part of the strategic intentions of competing firms (mean 2.96), competitors' features are also only

partially known (mean 2.615) by SMEs, but to a greater extent than their intentions. Companies surveyed said that the industry does not change rapidly (mean 5005), which in our opinion, makes them vulnerable to environmental threats on the one hand, and on the other hand prevents them to notice and capitalize opportunities that arise.

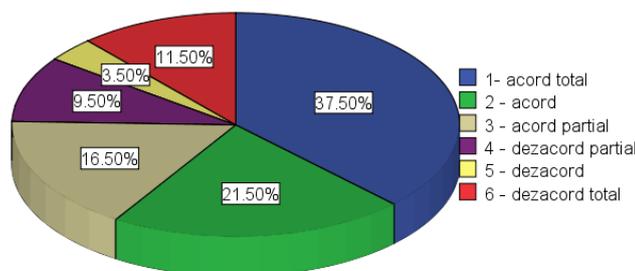
Field of activity does not affect any of the issues relating to the external environment that have been analyzed, in turn it was identified a statistically significant link between firm size and the existence of formal procedures for evaluating opportunities and threats. The other issues discussed in relation to external environmental analysis are not influenced by firm size. There is a correlation between firm’s experience and perceived dynamics of the industry as show the ANOVA test results. Experience does not affect other aspects analyzed.

The aspects analyzed relative to the selection of the strategy were the existence of a formal process for selecting strategies and the concerns for long-term implications. The responses of firms surveyed indicate that the formalization of the process of selecting strategies is low, with a mean value of 3.725 (partially disagree).



Graphic no. 3 *Strategy selection process’ level of formalization*

In general, long-term implications are only partially considered (mean 2545) when selecting strategy.



Graphic no. 4 *The long term implications are taken into consideration in the strategy selection process*

ANOVA test indicated that the two issues considered are not influenced by main field of activity, firm size or experience.

We were interested to know whether SMEs implement a strategy once selected. The responses indicate that not always strategy selection is followed by its implementation (mean 2665). A high percentage (57.5%) of companies said that once a strategy has been selected is implemented. The share of companies that do not implement the chosen strategy (19.5%) is not negligible. An important aspect for the success of the implementation is the allocation of resources. SMEs surveyed said they did not always allocate adequate resources to meet company strategic plans (mean 3.005), less than half (43%) of firms allocate sufficient resources and the number (20%) who sustained that resources are not enough is not insignificant. Good communication is essential for successful strategic planning process. Companies surveyed generally consider that there is good communication within the company (mean 1.86), most companies (77%) saying that there is good communication within their companies while only 5.5% believe that their companies are lacking good internal communication.

ANOVA test results indicate that neither the main field of activity nor firm size or experience significantly influence the existence of an implementation stage, the adequate resources allocation to implement the strategy or the existence of good communication within the company, the threshold for statistical significance for any pair of variables not having a value below 0.05.

Table 7 *Correlation between implementation process and firm's characteristics*

	Main field of activity			Company size			Company experience		
	df	F	Sig.	df	F	Sig.	df	F	Sig.
Once selected a strategy is implemented	2	0.292	0.747	2	0.231	0.794	3	2.158	0.094
Our company allocates adequate resources for strategic plans implementation	2	0.026	0.974	2	1.502	0.225	3	1.565	0.199
There is a good communication within the firm	2	0.194	0.824	2	0.014	0.987	3	1.331	0.266

Last component of the strategic management process that has been investigated is strategy control / evaluation. Strategic planning is a continuous process making it necessary the revision and adaption of the plans. As the current economic environment is very dynamic, continuously changing, strategic plans should be updated as new information is obtained or some changes are required. Questioned on the frequency of

review of plans, most companies surveyed said that their plans reviewed quarterly (31%) and monthly (27%). Applied tests show that, in general, the frequency of review of strategic plans does not depend on the size of the company or field of activity or business experience.

Generally companies stated they only sometimes elaborate budgets for the strategic plans (mean 3.005). Half of companies surveyed said they develop budgets for strategic plans, but the number of companies that do not elaborate this budget is also significant (30%). SMEs surveyed stated that they review strategic plans but this process is not continuous having a certain frequency (mean 2.655), the percentage of firms conducting continuous evaluation and revision of plans is 55%.

As the ANOVA test results show the continuous process for evaluating and reviewing strategic plans is not correlated with main field of activity, firm size or experience. The main field of activity and firm experience do not influence the development of budgets for strategic plans while between firm size and development of budgets there is a link, the frequency of developing budgets increasing with firm size.

Strategic planning influence on SMEs’ performance

The forty hypotheses formulated for a detailed analysis of the influences of strategic planning activities on performance were tested using Pearson Chi Square test. The tested hypotheses are shown in the figure below:

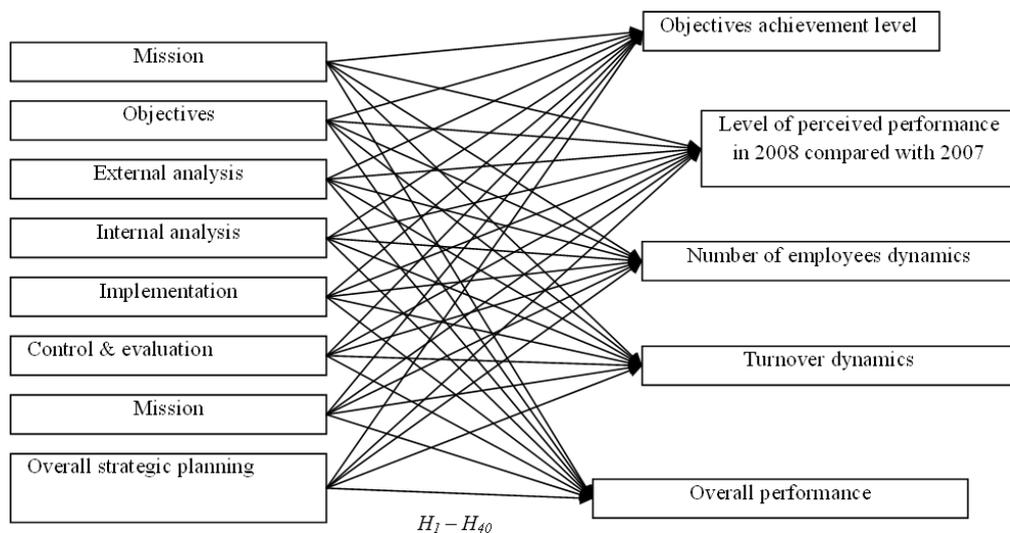


Fig. no. 1 A representation of the research hypotheses

The results indicate that, in general, a statistically significant relationship between two variables doesn’t exist, the statistical significance level having a value over 0.05.

Table 8 *Correlations between overall strategic planning and overall performance*

		Overall strategic planning	Overall performance
Overall strategic planning	<i>Pearson Correlation</i>	1.000	-.125
	<i>Sig. (2-tailed)</i>		.077
	<i>N</i>	200.000	200

Since the general relationship between the overall strategic planning indicator and the overall performance indicator was not confirmed, we searched for partial influences of planning on the four variables that reflect performance in our opinion. Thus, the results show that there is a positive correlation (with a confidence level of 99%) between strategic planning and the level of achievement of the established objectives. Also, a statistically significant relationship (with a confidence level of 99%) exists between strategic planning and business performance in 2009 compared to 2008.

We also aimed to identify the influences between each of the seven components of the overall strategic planning indicator (mission, objective, external analysis, internal analysis, strategic alternative selection, implementation and control-evaluation) and each of the four components of the overall performance indicator (number of employees dynamics, turnover dynamics, level of perceived performance in 2008 compared with 2007, objectives achievement level) as we considered each component of the two aggregate indicators (planning and performance) of equal importance in the construction of the aggregate indicator it is a part of. Of the 28 possible hypotheses were confirmed only the following:

- the level of knowledge and understanding of the objectives is positively correlated with a higher level of performance in in 2009 compared to 2008 (with a confidence level of 95%);
- the “Implementation” component of the overall strategic planning indicator is positively correlated with a higher level of performance in in 2009 compared to 2008 (with a confidence level of 95%);
- the “Evaluation and control” component of the overall strategic planning indicator is positively correlated with a higher level of performance in 2009 compared to 2008 (with a confidence level of 95%);

- the “External analysis” component of the overall strategic planning indicator is positively correlated with a higher level of objectives achievement (with a confidence level of 95%);
- the “Implementation” component of the overall strategic planning indicator is positively correlated with a higher level of objectives achievement (with a confidence level of 99%).

CONCLUSIONS

This doctoral thesis has proposed, in addition to promoting strategic management (strategic planning) as a best practice among small and medium enterprises also to study the strategic planning activities carried out by SMEs in the North West and to examine the existence, nature and intensity of direct and indirect, general and partial links between strategic planning in general, and the components of this process, in particular, on the one hand, and performance indicators related by turnover dynamics, number of employees dynamics, objectives’ level of achievement and perceived performance, on the other. Such studies, investigating the strategic planning and its influence on company performance, especially in the case of small and medium enterprises from a developing country are few. Therefore we believe that our research contributes to filling the void existing in this respect by providing an overview of strategic planning practices in a developing country.

The main findings of the study are:

- 89% of the companies surveyed stated they engaged in planning activities, 55.5% of them stating that the plans are submitted in writing;
- over 76% of the companies draw up plans for a period of up to three years, this leads us to conclude that companies are more concerned with operational rather than strategic issues;
- firm size, main field of activity and company experience does not influence strategic planning; it has been confirmed only the existence of a positive link between the aggregate indicator of strategic planning and development of written plans, companies that developing written plans following a more rigorous, complete strategic planning process;
- there is a significant difference between companies that develop written strategic plans and those not having written plans regarding goals achievement

in the last two years (65.5% of firms that have only partially fulfilled the objectives are companies not developing written plans writ, 59% of companies who have achieved the objectives in full and 60% of companies that have exceeded the targets are companies that have developed written plans);

- the extent to which objectives are achieved is influenced by assessment of strengths' and weaknesses' long-term impact (85% of companies that sustained to have exceeded their targets take into account this aspect);
- adequate resources influence the extent to which SMEs meet their targets (75% of companies that exceed their targets and over 52% of firms that fully meet their objectives allocate adequate resources to carry out plans);
- the formalization of the process of selecting strategies is low, averaging 3.725 (partially disagree);
- not always after strategy selection follows its implementation (average 2665)
- most companies surveyed said that their reviewed plans quarterly (31%) and monthly (27%);
- most commonly used instruments by SMEs are SWOT analysis (49.5%) and pessimistic and optimistic scenarios (43.5%);
- there is no statistically significant link between strategic planning and performance but there is a positive correlation (with a confidence level of 99%) between strategic planning and the extent to which objectives are met.

Our study highlighted both positive aspects of strategic planning and practices and aspects that should be corrected to increase success chances of SMEs. Positive aspects of strategic planning activities that have resulted from the study are: relatively high level of formalization of plans, the frequencies of plans' reviews, the use of SWOT analysis and pessimistic and optimistic scenarios (which indicates that there is an effort of strategic thinking in these firms), the formulation of a mission and its communication to employees, good communication within the company, the interest in customer needs.

Issues that can be improved in the context of effective strategic planning are assessment of strengths' and weaknesses' long-term impact, the consideration of opportunities' and threats' long-term implications, the concern for long-term implications of selected strategy, the existence of formal procedures for evaluating opportunities and threats, the ignorance of strategic intentions of competitors, adequate resources for implementing strategies and the very existence of the implementation phase of the selected strategy.

In support of our proposal addressed to SMEs to adopt strategic management model come the findings according to which the development of written strategic plans and strategic planning in general, affect objectives' achievement. In the strategic planning process taking into account the opportunities' and threats' long-term implications and also assessment of strengths' and weaknesses' impact play an important role in achieving objectives.

Limitations and future research directions

The study was conducted only among SMEs engaged in international activities. For this reason we consider appropriate to extend the research also among companies in this category having no direct contact with the international environment. Also, the extension of the study, in a first stage, to the small and medium enterprises in Western and Central region and then in Romania, would help increase the relevance of our study.

Another limitation of the study is that we didn't studied the characteristics of those responsible for strategic planning activities. These characteristics (age, experience and the nature of their studies) could influence strategic planning and firm performance.

We believe that the number of variables reflecting firm performance may be extended to non-financial and financial indicators established after a thorough study of literature and consultation with a panel of small and medium enterprises regarding the indicators they consider relevant to company's performance .

Resumption of study to investigate whether there are changes in the strategic planning activities carried out by SMEs is a direction for future research.

The literature supports the idea that for business success is not that important to follow some steps in the strategic planning process but the content of strategic plans. Hence a potential future research direction: the content of strategic plans of SMEs through case studies among SMEs in the above panel, allowing us to formulate ways to improve the strategic management practices.

Using the questionnaire as tool for data collection can raise suspicions about the sincerity of the answers given by firms on the one hand and the sincerity of field operators, on the other.

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