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*Influences on Strategic Planning Processes among Irish SMEs**

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In this study we argue that the approach to strategy formation reflects organizational and individual influences. The study, based on questionnaire responses from 359 firms, examines a number of organizational and individual factors influencing the type of strategy formation process adopted. The constructs of strategic posture, organization structure, management ownership, and Chief Executive Officer (CEO) experience are measured. Three models predicting strategy formation approaches are explored. First, an organizational model emphasizing the impact of strategic posture and organization structure is analyzed. Second, a model is tested dealing with CEO and top management team characteristics reflecting the effects of agency costs and experience base. Finally, an integrative model combining both organizational and individual factors is evaluated. The results highlight the importance of organizational factors and show, for instance, that entrepreneurial firms tend to adopt more formal strategic planning approaches, while conservative firms adopt more incremental approaches. In addition, both management shareholding and CEO experience are negatively related to formal strategic planning activities.

Introduction

Strategy development has received renewed attention from both practitioners and scholars as environments become more competitive (Bettis and Hitt 1995) and as academics and consultants advocate the necessity of enhancing strategic thinking within firms (for example, Hamel and Prahalad 1994). One specific modality of strategy development, namely strategic planning, has received significant research attention.

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The evaluation of the performance effects of strategic planning has been a central concern of researchers over the past three decades (for example, Brews and Hunt 1999; Bracker, Keats, and Pearson 1988; Robinson and Pearce 1984). While results have varied, evidence suggests that formal strategic planning is related to superior performance. For example, Schwenk and Schrader (1993) conducted a meta-analysis of studies into the effects of formal strategic planning on the financial performance of small firms and concluded that strategic planning has a significant, positive association with financial performance. Brews and Hunt (1999), in a sample survey among relatively large firms, found that more formal methods of planning outperformed less formal approaches. Recently, Perry (2001) found that although the overall level of strategic planning was low in small firms, successful firms did more systematic planing than failed firms.

However, in his critical review of strategic planning literature, Mintzberg (1994) comments that the "missing detail" in the area is an understanding of how strategies are made. This echoes Capon, Farley, and Hoening (1990)'s conclusion that the role of organization in strategic planning is "badly in need of more work" (p. 1158). Moreover, Matthews and Scott (1995) assert that the antecedent conditions of planning remain poorly understood, particularly in small and medium enterprises (SMEs).[1] This paper explores the role of organizational and individual features as antecedents to the strategic planning practices of SMEs.

As a basis for explaining planning activity, we use three of the four "imperatives" identified by Miller (1987a) as influencing organizational variety. He argues that the constructs of environment, leadership, strategy, and structure underlie many organizational processes and outcomes. The imperatives we use are strategy, structure, and leadership. (The omitted imperative is environment, which has been extensively studied in the planning literature.) Thus, in this paper we propose and test three models predicting strategy formation approaches in SMEs. First, an organizational model is specified that assesses the impact of strategic and structural properties on the strategy development process. A second model incorporating chief executive officer (CEO) and top management team characteristics is then specified. This model emphasizes the effect of agency costs and CEO experience in explaining the strategy development approach employed. Finally, an integrated perspective is taken, combining the two previous models.

Background and Literature Review

There are different views on what form the strategic planning process should take. Ramanujam and Venkatraman (1987) point out that much of the literature on planning has generally tended to characterize firms as planners or non-planners. While these labels may have been appropriate in another era, the prevalence of strategy development activities has undoubtedly expanded. One critical dimension that has dominated recent discourse and debate in the strategic management field is the controversy surrounding the efficacy of synoptic formalism versus more adaptive learning styles (Ansoff 1991; Mintzberg 1991). Ansoff (1991), echoing earlier views of Andrews (1987), argues that the planning process may be approached in a rational manner. This involves the explicit identification of ends/objectives and the selection of the most effective

[1]We define SMEs as firms employing less than 500 employees.

courses of action to achieve those ends. However, Quinn (1978) argues that the process of strategy formation is typically fragmented, evolutionary, and largely intuitive and that firms' strategies evolve over time as a result of small incremental steps and decisions. Mintzberg (1978) further argues that the concept of strategy may be viewed as a pattern in a stream of decisions. In Mintzberg (1978)'s view, strategy emerges over time as the most appropriate tactics, and managerial decisions become known to the strategist. Neither Mintzberg nor Quinn would argue that there should be a complete absence of formal planning in firms, as such activities can enable and facilitate adaptation.

In fact, strategy development and planning processes are increasingly being identified as a primary source of adaptation and learning in organizations (De Geus 1988). Learning is facilitated as the assumptions that underlie a strategy are subjected to critical examination through the strategy development process. Indeed, as many of the principal benefits of strategy development are of a process nature, the focus on economic outcomes in much of the strategic planning–performance literature may be misplaced (Sinha 1990; Pearce, Freeman, and Robinson 1987). Thus, as stated in the introduction, while much of the literature seems to be fixated on relating strategy development activity with actual firm performance, the antecedents and process benefits of planning are poorly understood.

The question remains as to what extent SMEs engage in strategic planning processes, be they emergent or synoptic. It has been noted that, while entrepreneurial (startup, highly innovative) ventures plan more than do other SMEs, the absolute level of planning is relatively low (Bhide 1994). Entrepreneurial firms also engage in more sophisticated strategic and operational planning than do other SMEs, but the incidence of both types of planning declines as environmental uncertainty increases (Matthews and Scott 1995). Formal strategic planning may not be popular among SMEs because they have inadequate knowledge of the processes involved and because of a lack of sufficient managerial expertise. In addition, SMEs may lack the time to plan in any structured manner (Robinson and Pearce 1984).

Model and Hypothesis Development

In this paper we argue that the approach to strategy development reflects both organizational and individual influences, among others. The models proposed are rooted in contrasting views of the firm, with one emphasizing the organizational imperatives of strategy and structure, and the other emphasizing the leadership imperative including ownership and experience (cf. Hansen and Wernerfelt 1989).

Thus, we expect that firm strategic characteristics will influence the type of strategy development process enacted in the firm. One of the contested areas in the literature is the relationship between strategy and the strategy development process. Taking an information processing perspective (Galbraith 1977), Rogers, Miller, and Judge (1999) point out that different strategies impose different information processing requirements on the firm, thus influencing the type of strategy development approach used. We employ the concept of strategic posture to capture the firm's strategy and therefore the information processing requirements of the strategy. Strategic posture can be broadly defined as the firm's overall competitive orientation (Covin and Slevin 1989). There have been many attempts to define typologies of strategic posture in which the basic thrust or overall dimensions of the firm's strategy can be encapsulated. According to Porter (1985), the firm's strategic posture depends on the position they take in

relation to issues such as cost leadership and differentiation. Other typologies characterizing a firm's competitive orientation include Maidique and Patch (1978) and Miles and Snow (1978). The latter typology reflects the firm's decisions about where and how to compete; about the core technology used to produce or deliver the product/service, and finally, the administrative arrangements used to organize the firm. The internal consistency of these choices manifests itself in four generic strategies. Prospectors emphasize a rapid rate of new product introduction, deploy flexible technology, and are administered with organic structures. At the other extreme, defenders focus on efficiency of production, make dedicated investments, and are administered with mechanistic structures. Analyzers are a hybrid and seek to follow prospectors, cautiously, with new product introductions while protecting a stable set of products. Finally, reactors make inconsistent choices.

In relating this typology to strategy development, Pearce, Robbins, and Robinson (1987) found no systematic difference in the formality of planning across the Miles and Snow strategy types. On the other hand, Segev (1987), in an experimental study, found significant relationships between prospector and analyzer strategies and the adaptive and entrepreneurial forms of Mintzberg (1974)'s strategy development approaches, respectively.

Conant, Mokwa, and Varadarajan (1990), when listing the characteristics of Miles and Snow's (1978) Prospectors, describe them as exhibiting a problem and opportunity-finding perspective to planning, along with a broad and continuously expanding product market domain. Simons (1987) found that such firms used forecasting and careful monitoring of revenues to a much greater extent than other types of firms. Raymond, Julien, and Ramangalahy (2001) found that prospectors exhibited more formal technology scanning practices compared to defenders. Similarly, Collins, Holtzmann, and Mendoza (1997) found that prospector-like firms used budgeting to a much greater extent than the other Miles and Snow archetypes. Moreover, Rajagopalan (1996) found that prospectors employed more longer-term incentive plans, thereby encouraging more longer-term thinking. Similarly, conservative firms share many traits with defender firms. Conant, Mokwa, and Varadarajan (1990) list among the characteristics of defender firms "inside/out control dominated" planning functions, "centralised and financially anchored" control systems, and having "strong organizational monitoring" systems (p. 367). Rajagopolan (1996) also found that defenders used short-term incentives based on quantitative criteria, thereby rewarding a shorter-term orientation.

Covin and Slevin (1989) describe two types of firms: entrepreneurial and conservative. They describe entrepreneurial firms as those in which "top managers have entrepreneurial styles, as evidenced by the firm's strategic decisions and operating management philosophies" (p. 77). The strategic posture of entrepreneurial firms is similar to Miles and Snow's (1978) prospector category in so far as they both exhibit risk-taking, innovative, and proactive styles (Lumpkin and Dess 1996). In contrast, conservative firms reflect strategic postures typified by an aversion to risk, with inertial and reactive strategies. (Covin, Slevin, and Schultz 1994). Firms with conservative strategic postures are similar in many ways to Miles and Snow's defender firms in that the focus of their efforts is to maintain the status quo and to be followers rather than leaders in the market place.

Similarly, March (1991) differentiates between "explorer" and "exploiter" organizations. The former are interested in enhancing variety and learning across new frontiers. The latter are interested in optimizing their competitive position. In

this instance, we assert that "explorer" type organizations, which we see as entrepreneurial, will tend to deploy formal synoptic methods of strategy formation, while "exploiter" types, which we equate with conservative postures, will deploy incremental approaches. This is consistent with Daft and Weick (1984)'s view that defender-type organizations tend to use problemistic search routines (March and Simon 1958), which means that the firm will perform a local search for problem solutions. We therefore hypothesize that

H1: Firms with a conservative strategic posture are more likely to adopt incremental and emergent strategy formation processes, while firms with an entrepreneurial strategic posture are more likely to adopt a comprehensive, thorough strategy formation process.

In addition to its strategic posture, a key feature of the "administrative heritage" (Bartlett and Ghoshal 1989) of an organization is the pattern of organizing used to coordinate activities within the firm. The organization structure is central to the firm's information processing capability. In terms of organizational factors, Kukalis (1989) investigated the effects of size, structure, and capital intensity on the planning sophistication of large firms. He found that size was related to the existence of separate planning departments. He characterized structure in terms of multidivisional structures, and his sample was drawn from Fortune 500 firms. In a sample of smaller firms, Miller (1987b) characterized structures across formalization, centralization, and structural integration dimensions and found that formalization was significantly and positively related to rational, synoptic approaches and to high levels of interaction. In addition, he found that the use of formal integration devices had a significant and positive effect on the "rationality" of approaches. However, the study characterized strategy-making variables across rational, interactive, and assertive dimensions. While the first two emphasize traditional process dimensions, the assertiveness dimension, we feel, speaks more to the strategic posture of the firm rather than to a process.

Given our focus on SMEs, we were interested in the organizing *gestalt* of the firm. Thus, one can think of the pattern of organizing as reflecting a mechanistic to organic continuum (Burns and Stalker 1961). Organic firms are characterized by high levels of mutual adjustment and interaction. Mechanistic firms, on the other hand, are coordinated extensively through rules and procedures and formal integration devices. Given Miller's (1987b) findings and the contrast between the organic and mechanistic types reflecting the extent to which formality of interaction is specified, we propose the following:

H2: Organic firms are more likely to adopt a strategy formation process that is incremental and emergent while Mechanistic firms are more likely to adopt a strategy formation process that is comprehensive and formal.

Given the structure follows strategy assertion (Chandler 1962), it is proposed that the strategic posture of the firm will have a greater impact on the design of the administrative mechanism of strategy development than the administrative heritage as evidenced in the structure of the firm. Thus,

H3: The effect of strategic posture on the strategy formation process will be greater than the effect of organization structure.

In terms of individual imperatives, a number of appeals have been made in the literature to investigate the effects of

leadership variables on planning approaches (Kukalis 1989). Bower (1998) calls for increased attention to be directed at the CEO in strategy-decision making research. He invokes this call to reflect the impact that the CEO has on the firm. Hambrick and Finkelstein (1987) developed the concept of managerial discretion to refer to the latitude of action available to top executives. They argue that because the CEOs of large firms have low levels of managerial discretion, it would therefore be expected that in small enterprises, CEOs have considerable discretion in the design of the strategy development approach. This assertion is partially borne out by Miller, Kets de Vries, and Toulouse (1982), who found that CEO locus of control was strongly associated with organizational strategy and structure in small firms but not in larger firms.

One particular aspect of leadership that will influence the nature of the strategy development process adopted is the issue of ownership and consequent agency relationships (Eisenhardt 1989). This is particularly important in SMEs, where transitions occur in control between owner–managers and professional managers. In separating ownership from management, owners (principals) incur agency costs. These costs arise because of the divergence of interests between principals and agents. In order to economize on agency costs, various contractual and control mechanisms are instituted to align the interests of agents with principals and to allow principals monitor agent actions. In a review of this literature Eisenhardt (1989) summarizes two major propositions informing this study. The first proposition states that when the contract between principal and agent is outcome-based, the agent is more likely to behave in the best interests of the principal. This occurs because the principal's and agent's interests align around the outcome, such as profit achieved. One way to achieve this is to ensure that managers have an ownership stake in the firm (Oswald and Jahera 1991). The second proposition refers to the principal's ability to keep informed of the agent's behavior. The more information that is available to the principal concerning the behavior of the agent, the more likely the agent is to act in the principal's best interests. In considering these assertions, it seems likely that, as managerial ownership of the firm decreases, the principal(s) will be interested in ensuring that an appropriate "strategy" is developed for the firm to contribute to growth and profitability (Simon 1993). Thus, the principal is likely to be interested in seeing either documentation on, or evidence of a development process concerning, such a strategy. This may be particularly important for institutional investors who would require evidence of a strategy for their own internal control activities (Shuman, Shaw, and Sussman 1985). We therefore hypothesize that

H4: As managerial ownership of the firm decreases, there is a greater propensity to employ formal methods of strategy development, and as managerial ownership increases, there is a greater propensity to use emergent methods of strategy formation.

On a separate issue, it is likely that as a CEO's tenure and industry experience increases, the industry and organizational specific knowledge gained may reduce the perceived need for comprehensive, formal reviews of strategy. This argument would be consistent with the commitment to the status quo literature (Hambrick, Geletkanycz, and Fredrickson 1993). Commitment to the status quo is defined as "a belief in the enduring correctness of current organizational strategies and profiles" (p. 402). The authors argue that as individuals spend time in organizations and as they are promoted, they become convinced of the

appropriateness of the firms' ways. Moreover, as industry tenure increases, the individuals become socialized into industry norms (Spender 1989). These effects may reduce the incentive to engage in systematic, formal reviews of strategy. Thus:

H5: As CEO tenure increases, there is a greater propensity to employ incremental approaches to strategy development.

Research Design

Data Collection

A sample of 1,000 firms was drawn from the Irish *Business and Finance* magazine database of the top 2,000 firms in Ireland. All agricultural and financial services firms were excluded. An initial sample of 1,500 was drawn, sorted by reported sales, and within the employment parameters of 10 to 500 employees. This sample was then perused with the objective of removing all recognizable multicompany groups. This was carried out in order to restrict the sample to single-industry firms because diversified firms might use different strategy formation processes across different businesses. The first 1,000 firms in the remaining sample were chosen for inclusion. All of the sampled firms are SMEs within our definition, with an average employment level of 180 and a standard deviation of 138.

A modified version of the Total Design Method (TDM) (Dillman 1978) was used to organize and conduct the survey. The first part of the total design method consisted of the efforts made in choosing the sample, as described above, and designing and pilot testing the survey instrument. The second part of TDM involved the conduct of the actual survey, which was carried out over two mailings. The target respondent in each mailing was the CEO of the firm. It was felt that the CEO or managing director would be the person most likely to be in a position to influence the type of strategy formation process employed and to be most knowledgeable about the constructs of interest in the study (Huber and Power 1985). It was expected that targeting the CEO or managing director would therefore offer the best chance of a satisfactory response.

The first mailing consisted of a personalized cover letter, forwarded to each CEO, together with a copy of the questionnaire and a prepaid reply envelope. The cover letter set out the content and purpose of the research and also included a commitment to forward a donation to a nominated charity for every completed questionnaire received. This was followed three weeks later with another mailing to each CEO. The second mailing included another personalized cover letter repeating the request, a copy of the questionnaire, and a prepaid reply envelope.

Quality of Data Collected

A total of 220 usable replies were received from the first mailing and a further 139 from the second mailing. This amounted to a total valid response of 359 firms or a response rate of 35.9 percent. This response rate is much greater than the average top management survey response of between 15 and 20 percent (Menon, Bharadway, and Howell 1996). Of the 359 respondents, 89.3 percent identified themselves as managing directors, CEOs, or financial controllers. The remainder were senior functional managers. The median years industrial experience was 20 years.

On the basis that the characteristics of late respondents are similar to those of nonrespondents, we tested for nonresponse bias by comparing response means for the major variables from the first and second mailing (Oppenheim 1966). The results of t-tests for the variables size, strategy formation process, and strategic posture were not significant. In addition, the correlation matrix

for the above construct items for the two groups were similar. Also, the cumulative percentage of respondents who fall into the managing director/CEO/financial controller category was similar for both groups. Finally, the proportion of responses by industry category reflected the proportions represented in the mailing. Therefore, we conclude that there is no significant evidence of response bias. Given that the independent and dependent variables are measured simultaneously with the same instrument, a concern arises over common method variance. Following the recommendations of Podsakoff and Organ (1986), a factor analysis of the main independent and dependent items revealed that no single factor accounted for more than 20 percent of the variance. While this ex-post test is relatively weak, it provides some comfort about conclusions on response sets.

Measures

A number of scales developed by Slevin and Covin (1997) (details below) were used in this survey as they were developed and validated in the SME environment. The construct of strategy formation process was measured by using a five-item seven-point scale designed by Slevin and Covin (1997). This scale measures strategy formation patterns as a continuum, with high scores indicating a formal, planned strategy formation process and low scores indicating an informal, emergent strategy formation process. Responses to this variable had a mean of 4.67, a standard deviation of 1.13, a range of 1.6 to 7.0, and an inter-item reliability coefficient (alpha) of 0.75, within the acceptable range. The measure of strategic posture was adapted from the work of Covin and Slevin (1989), and Covin, Slevin, and Schultz (1994). The scale categorizes firms as having either an entrepreneurial or a conservative strategic posture. These authors developed the scale based on the work of Miller (1983), who identified three components of strategic posture, namely: innovation, proactiveness, and risk taking. A firm with an entrepreneurial style will be "characterized by frequent and extensive technological and product innovation, an aggressive competitive orientation, and a strong risk-taking propensity by top management." On the other end of the scale, a firm with a conservative style will be "characterized by minimal technological and product innovation, a cautious competitive orientation, and a weak risk-taking propensity by top management," (Covin and Slevin 1989). The nine-item, seven-point Likert scale concentrates on these three attributes, with three items for each attribute. The higher the score, the more entrepreneurial the strategic posture of the firm, and the lower the score, the more conservative the strategic posture. Reponses to this variable had a mean of 4.39, a standard deviation of 0.9978, a range of 1.78 to 6.67, and an inter-item reliability coefficient (alpha) of 0.8352.

Organization structure was measured by using a seven-item scale, which measures "organicity," or the extent to which the company is structured in organic or mechanistic ways. The scale was developed by Khandwalla (1977) and subsequently used by Covin and Slevin (1989). The alpha for the scale was 0.85. Management shareholding was measured by a single item that asked respondents to reveal the proportion of ownership held by the top five executives in the firm (mean 28 percent). Experience was measured by the amount of time the CEO/respondent had spent in the firm (mean 9.8 years; S.D. 8.7 years). In addition, we used firm age and size as control variables as these could explain variation in strategy development activity.

The analysis involved estimating three regression equations. The first reflects the organizational variables (strategy and structure), the second, the leadership variables (CEO experience and top

management shareholding), and finally an integrated model is specified. This approach was taken to evaluate the discrete explanatory power of the organizational and leadership variables.

Results

Before examining the results of the regression analysis in relation to the hypotheses, it is of benefit to look at the results of bivariate correlation analysis between all the variables under study. Table 1 sets out descriptive statistics and Pearson correlations for each variable. Slevin and Covin (1997) report positive and significant correlations between the emergent-to-formal strategy formation process scale and both firm size, as measured by number of employees, and firm age, as measured by number of years in operation. They therefore used these two variables as control variables in subsequent hypothesis tests. Our results echo theirs. It was expected from the arguments put forward above that a positive correlation would exist between the strategic posture scale and the strategy formation process scale. Our results indicate this positive correlation is significant. It was similarly expected that there would be negative correlations between organization structure; management shareholding and CEO experience and formal strategy formation. Our results support these negative correlations.

In testing the hypotheses, a multivariate approach was used to incorporate the effects of control variables. The controls used were size and age, because as firms get larger and older, more formalized, bureaucratic procedures might emerge. Table 2 displays the results for the various regressions. Model One (Organization Model) regresses the control and organizational variables against the strategy formation process. As shown, neither size or age control variables achieves significance. As predicted by H1, the strategic posture variable is positively and significantly related to the strategy formation process. This means that firms with conservative postures use incremental methods of strategy formation and firms with more aggressive, entrepreneurial postures use more comprehensive and synoptic methods. Likewise, as predicted by H2, firms with organic structures tend to use incremental methods, while firms with mechanistic structures use formal, synoptic methods. In addition, consistent with H3, as is evident from the standardized weights, strategic posture has a greater effect on the dependent variable than the structure variable.

Model Two (Individual Model) regresses the leadership predictors on the strategy formation process. As shown, the explanatory power of this model is much lower than the previous model. However, as predicted by H4, the negative coefficient shows that as managerial shareholding increases, there is greater reliance on emergent mechanisms to develop strategy. Moreover, while the direction of the relationship between experience and the use of incremental, emergent approaches is as predicted, the relationship marginally achieves significance at conventional levels.

Model Three (Integrated Model) combines the organizational and leadership predictors. The significant predictors from the previous two models retain their significance, and there is an increase in explanatory power over the previous models. Although the increase in explanatory power is slight, the incorporation of the individual level predictors is additive to the explanatory power.

Discussion

The overall pattern of results supports the hypotheses. As shown, entrepreneurial firms employ relatively formalized planning procedures. At the same time, conservative firms tend to employ less formalized procedures. While this may at first appear surprising, one explanation

Table 1
Correlation Matrix

Variables	Mean	S.D.	Size	Age	Strategic Posture	Structure	Strategy Formation	Management Shareholding	CEO Experience
Size (Employees)	180.0	138.0	1.00						
Age (Years)	36.0	43.0	0.042	1.00					
Strategic Posture	4.4	1.0	0.18***	−0.13*	1.00				
Structure	4.7	1.0	0.086	−0.068	0.345***	1.00			
Strategy Formation	4.6	1.1	0.046	0.051	0.230**	−0.078	1.00		
Management Shareholding	28.0	40.0	−0.058	−0.008	−0.028	0.018	−0.161***	1.00	
CEO Experience	9.8	8.7	−0.066	−0.002	0.039	0.053	−0.118*	0.286***	1.00

*$p < .05$
** $p < .01$
*** $p < .001$

Table 2
Regression Results of Organizational, Individual, and Integrated Models Dependent Variable = Strategy Formulation Process

Models	Constant	Employees	Age	Posture	Structure	Management Shareholding	CEO Experience	*F* Ratio	Probability	R^2-adjusted (%)
1. Organizational Model										
beta coefficient	3.88	–0.037	0.120	0.345	–0.194	—	—	8.626	0.000	8.1
(significance)	(0.000)	(0.597)	(.074)	(0.000)	(0.001)					
(standardized beta)	—	–0.027	0.094	0.313	–0.182					
2. Individual Model										
beta coefficient	4.79	–0.021	0.057	—	—	–0.004	–0.01	3.1	0.015	2.5
(significance)	(0.000)	(0.07)	(0.422)			(0.001)	(0.158)			
(standardized beta)		–0.016	0.044			–0.153	–0.081			
3. Integrated Model										
beta coefficient	4.16	–0.064	0.131	0.353	–0.196	–0.003	–0.011	7.99	0.000	11.2
(significance)	(0.000)	(0.357)	(0.061)	(0.000)	(0.001)	(0.009)	(0.08)			
(standardized beta)		–0.048	0.101	0.323	–0.186	–0.142	–0.094			

is the level of effort put into addressing the bases upon which strategy is formulated in both types of organization. It is likely that entrepreneurial firms frequently review the bases upon which their competitive advantage rests. This may require extensive analysis and debate within the organization. Such debate may be facilitated through the use of structured methods of strategic planning. On the other hand, a conservative posture suggests a certain level of inertia with respect to addressing the bases upon which advantage rests. The basis of advantage in conservative firms may not be subject to the same level of questioning. Therefore, a more informal or emergent process suffices. Strategic posture can therefore be identified as an important determinant of the approach to planning.

It is also interesting to highlight the significant associations between structure and process. As shown, the organically structured firms emphasize incremental and emergent approaches to strategy development. This reflects the overall pattern of mutual adjustment evidenced in these firms. Mechanistic firms, as hypothesized, tend to employ formal methods to communicate with each other; therefore, it is not surprising that this pattern is repeated within their strategy formation process. This finding may also reflect an "equi-finality" in information processing capability. Organic firms typically have extensive information processing capability because of their fluidity and extensive communications and may not employ formal strategy development tools to enhance strategic insight. On the other hand, mechanistic firms may compensate for relatively poor information processing capacity with synoptic, formalized strategy development activities.

The significant, negative association between management shareholding and the use of formalized, synoptic approaches is consistent with previous research. In a field study of owner and professional CEOs, Smith et al. (1988) found that the owners were less comprehensive in their decision behavior than professional managers. They defined comprehensiveness as the degree to which the individual followed a formal, rational decision process. This difference in decision behavior may reflect a governance imperative. It is possible that plan documents are used as "control" devices. The "principals" (such as venture capitalists, other angels, and business owners) may rely on formal plan documents and processes to provide a routine "check" on managerial discretion employed by the CEO and top management team. It is likely that these executives are expected to go through a scheduled strategy review/development process periodically. This approach reflects a formal, documented strategy development approach that managers may be required to adopt.

Finally, the negative relationship between CEO experience and formalized planning may reflect the custodial or defensive nature emanating from a strong commitment to the status quo. As experience levels increase, the perceived need to review a strategy formally may decrease. However, from a normative point of view Rue and Ibrahim (1995) found that high-performing small companies involved their boards in systematic business planning more frequently than poorer performers. Moreover, it may be important in owner-managed firms to engage in formalized strategic planning, as Upton, Teal, and Felon (2001) found that high growth family firms extensively involved their boards in strategic planning activity. In addition, Smith et al. (1988), in the study cited earlier, found that comprehensiveness of decision process was associated with positive performance. This finding speaks to the importance of critically reviewing the basis upon which strategy is founded.

Conclusion

The most important finding is that entrepreneurial firms employ relatively formalized methods of strategic planning. Formalized methods help firms learn about their environments and their capabilities. Such insight could help SMEs maintain an edge over their competitors. The importance of strategic posture in explaining planning activity may also reflect the different management styles found in companies following conservative versus entrepreneurial strategies. In particular, it may reflect differing functional experiences of the various top management teams who are charged with developing strategy (Miles and Snow 1978). Perhaps, entrepreneurial firms and top management teams are dominated by certain functional specialists (such as marketing or R&D people), while conservative firms are dominated by engineering and/or finance people. This may be an interesting avenue for future research.

There are a number of limitations to the study. First, because of the cross-sectional design, causality cannot be established. A longitudinal study would be required to track changes in orientation and structure and subsequent changes in planning approach to gain such insight. A major omission for the theoretical framework of the paper is the absence of "environment." While conscious of the omission (due to concerns over the length of the measurement instrument and a simultaneous concern with maintaining anonymity of response which prevented "secondary" measures being used and related back to respondents), future research should incorporate this crucial dimension. Moreover, a concern could be raised with common method variance. Although a limited post hoc test was employed, the difficulty remains that the predictor and dependent variables are collected with the same instrument. In a related fashion, the reliance on a single informant per organization requires that the results be treated with some degree of caution.

Notwithstanding these limitations, it is felt that this paper has made a contribution to improved understanding of the predictors of strategy formation processes. Such understanding could potentially help those charged with consulting to or assisting smaller businesses in developing strategy to be more sensitive to the organizational and individual-level influences on the type of planning approach adopted. Moreover, while evidence may be accumulating that "formal" methods of planning are superior, the results of this study highlight the potential concomitant changes that are required in other systems, such as the structure and strategic posture of the firm to embed such formalized processes. In other words, this study has provided evidence of the likely contributors and inhibitors to introducing formalized strategic planning in SMEs. While an entrepreneurial posture is important, the findings also highlight the potential difficulties of introducing formal, comprehensive strategy development processes in owner-managed firms. This finding is consistent with a recent work by Wood and Joyce (2003). They surveyed 513 owner–managers and professional managers in SMEs. They found that owner–managers had a poorer understanding of strategic management terms and used strategy tools less extensively than did professional managers. Resistance to such approaches by owner–managers may reflect highly centralized decision-making structures where debate and open discussion of strategic alternatives is eschewed. Alternatively, it may reflect that owner–managers have difficulty prioritizing the development of their managerial skills while dealing with the pressures of leading and developing the business.

Exploration of the barriers to improved strategy practice in SMEs remains an important agenda item for research.

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