

## Strategic approaches in Australian SMEs: Deliberate or emergent?

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### Abstract

*The aim of this paper is to determine whether Australian SMEs could be characterised as 'deliberate' or 'emergent' in their strategic approaches. More specifically, surveying 1230 Australian SMEs, this paper focuses on answers to the following questions: What is the nature and prevalence of strategic practices in Australian SMEs? and to what extent does firm size differentiate the patterning and prevalence of strategic practices? The findings add to the little empirical research showing the principal activities and tools that comprise the strategic practices undertaken in Australian SMEs. Overall, and in both small and medium enterprises respectively, strategic thinking and action seem to be undertaken with the use of a framework of a written business plan which is in line with the 'deliberate' approach; however few sophisticated strategy making techniques were employed. Researchers and practitioners may find it valuable to develop tools that will naturally suit SME firms so that these tools can be of more value. Academics and tertiary institutions will be well advised to develop strategic management courses which also specifically focus on more emergent approaches designed for smaller firms including specially developed techniques and tools that are less time-consuming and expensive to use and more suited to smaller firms. This would enable SMEs to expand the range of strategy making tools they employ.*

**Keywords:** strategic approach, deliberate strategic approach, emergent strategic approach, small and medium-sized enterprises, Australia

Small and medium enterprises (SMEs) comprise about 99% of all enterprises within the Asia Pacific region, and their importance to National economies cannot be underscored (Hall, 2008). SMEs' contribution to employment growth is significant, for example SMEs employ between 40 and 80% of the workforce in the Asia Pacific region. Despite this contribution, SMEs as a group remain highly susceptible to changes in the economic climate. Within the Australian context, there is strong evidence that many SMEs are destined for a short, volatile life, and many do not achieve a long-lasting existence, even fewer achieve substantial growth. For the financial year 2006–2007 the business exit rate (percentage of businesses that ceased trading during the year in question) was 14.6% (Australian Bureau of Statistics [ABS], 2008). This was down from the 14.9% recorded in 2005–2006 and represents approximately 291,000 businesses, the lowest recorded exit rate for the 4 year period to June 2007 (ABS, 2008 in Young, 2009). Four out of ten businesses which were operating in June 2003 no longer existed by June 2007 (ABS, 2008). This significant risk of failure is

especially relevant to SMEs employing less than 200 employees and representing the majority of Australian businesses.

Even though reasons for SME exits range from causes such as changes in ownership to cessations involving business failure, such as when a business goes bankrupt (unincorporated enterprises), is liquidated (incorporated enterprises) or simply closes because the owners are unable to secure a sufficient return (Reynolds, Williams, & Savage, 2000), it is reasonable to assume that a significant portion of the 'exits' are caused by the owner's inability, or lack of desire to continue trading. Activities that can improve the sustainability of the SME sector should therefore be promoted. One such activity is the approach to strategy making that a SME employs because the literature overwhelmingly links business success with business planning (Jocumsen, 2004) and with the crucial contribution of strategic planning (for example, Allen, 2007; David, 2007; Hatten, 2006; Hodgetts & Kuratko, 2008; Reynolds et al., 2000; Rue & Ibrahim, 1998; Samson & Daft, 2005; Schaper & Volery, 2007). Strategy has been variously defined in the literature, for example, an early definition

by Mintzberg and Waters (1985) view strategy as consistency in behaviour whether or not it is intended. More recently, Van Gelderen, Frese, and Thurik (2000) define strategies at the individual level as plans for actions that influence how people are doing things. The working definition of 'strategy' employed in our study is consistent with the definition offered by Gibcus and Kemp (2003). They define strategy as a mechanism to focus the efforts of a company.

At this stage of the presentation of our study, it might be useful to ask, 'does strategy making in SMEs matter and why is this topic relevant to study?' Strategic decisions determine and influence a range of other decisions in the SME and strategy also impacts upon decisions at other levels over a period of time. In Tang and Thomas' (1994, p. 211) words: 'one decision set, directly or indirectly, causes or is superior to other sets of decisions'. Ensign (2008) argues there is also an element of 'doing' in the concept of strategy and there is also the making or shaping of strategy (formulation) and the act of using strategy (implementation).

In addition, even though Mintzberg and Waters (1985) argued in the eighties that a research focus exclusively on deliberate strategy is only half of the story and provide an incomplete picture of strategic approaches, a focus on emergent strategy within the SME context only emerged recently.

Despite a growth in international strategy research in SMEs, only a few Australian studies have employed large scale surveys in exploring strategic issues in SMEs (see Cassar & Gibson, 2007; Gibson & Cassar, 2002; Kotey & Meredith, 1997). The empirical studies regarding evidence of the use of the emergent approach has mainly been studied with a case study or anecdotal context (Brown & Eisenhardt, 1998; Burgelman, 1983; Harris, Forbes, & Fletcher, 2000; Mintzberg, 1994).

It is also argued that SMEs which utilise some form of strategic approach, however informal, do perform better and are more likely to endure (Hannon & Atherton, 1998; Lussier & Pfeifer, 2001; Lyles, Baird, Orris, & Kuratko, 1993; Mazzarol & Reboud, 2009; Perry, 2001). Therefore, involvement in a strategic development process and the type of strategy making

process utilised in the firm may separate successful SMEs from those who experience problems in survival (Marlow, 2000; Verreynne, 2006).

Authors such as Rue and Ibrahim (1998), Gray (1997) and Gibbons and O'Connor (2005) highlight a strong link between strategic business planning and firm performance and there is strong evidence that successful companies undertake more formal planning than failed firms. Of the latter, we focus this paper on the less examined position of SMEs, which proportionally appear to attract less attention in research than their importance in Australian employment. While there is extensive literature on strategic approaches, the majority of published work focuses on strategy making in large organisations (Barnes, 2002; Beaver, 2004; O'Gorman, 2000; Wheelen & Hunger, 1999).

There is often the perception that SMEs do not engage in formal strategy making since their focus is mainly on the operational issues which occur on a daily basis. Further to this argument, the perception also exists that strategy formulation is often reserved for large organisations that could afford a department that is exclusively responsible for planning activities (Gibcus & Kemp, 2003). The impact of organisational size on strategy making approaches is examined in this paper. Kraus, Harms, and Schwarz (2006) argue that small enterprises are not little big enterprises, and that strategic planning developed in the context of large firms might not apply to their smaller counterparts. This argument is supported in Matthews and Scott's (1995) work that found organisational size to be an important determinant of a firm's strategic processes. As firms become larger they have more available resources for planning while smaller firms have resource gaps including lack of staff, expertise and time (Matthews & Scott, 1995). A number of studies have found support for an association between firm size and planning process sophistication (Glen & Weerawardena, 1996; Griggs, 2002; Stone, 1989). The smaller the organisation, the less emphasis there seem to be on analysing government and political issues, competitive trends, supplier trends, external client and customer preferences, and technological trends, and on performing market research (Glen & Weerawardena, 1996).

Small and medium enterprises represent by far the modal organisational architecture in Australia (approximately 89%, ABS, 2001). More specifically, it is as important now, if not more than ever, that we understand those firm characteristics of, and practices engaged by, Australian SMEs from which strategy making is understood to drive performance. The emphasis on large organisations has led to a gap in the literature relating to strategy making and its sophistication ('degree of completeness'; O'Regan & Ghobadian, 2006; Rue & Ibrahim, 1998) in SMEs, even though strategy making is now an established management tool in small and medium-size enterprises (Rue & Ibrahim, 1998). In view of this O'Gorman and Doran (1999) have warned that the 'blind adoption' of planning models appropriate for large firms is not a viable strategy for smaller firms.

Furthermore, despite a growth in international strategy research in SMEs, only a few Australian studies have explored the nature and extent of strategic approaches in SMEs (Gibcus & Kemp, 2003; Gibson & Cassar, 2002, 2004; Gray, 1997; Kotey & Meredith, 1997). Gibbons and O'Connor (2005) argues that the incidence of planning in SMEs have mainly been studied through the use of small samples subject to geographic and industry constraints. In addition, much of the strategy research has been focused on the more deliberate planning processes employed by SMEs. Our study attempts to fill some of the gaps by also examining the emergent approach to strategy making in Australian SMEs. In most studies regarding evidence of the use of the emergent approach to strategy making, the focus has been on case studies or anecdotal context (Brown & Eisenhardt, 1998; Burgelman, 1983; Harris et al., 2000; Mintzberg, 1994). Very few studies examined various strategy-approaches based on a broad sample of firms as is the case of the present study (Gibcus & Kemp, 2003; Hart, 1992; Lumpkin & Dess, 1995; Slevin & Covin, 1997).

Another contribution of this study is that it adds to the little empirical research showing the principal activities and tools that comprise the strategic practices undertaken in SMEs. There is no shortage of authors calling for the development of

effective strategic planning systems and processes in SMEs (French, Kelly, & Harrison, 2004). For example, both Osborne (1995) and Herter (1995) have argued for entrepreneurs and small business owners alike to adopt a more formal approach to strategic planning because of the various benefits that such a disciplined approach would bring to their businesses. Some of the benefits identified by Schaper and Volery (2007) include clarity in direction and purpose, and the compilation of yardsticks for periodic performance evaluation and review.

Owing to the heterogeneity of the SME sector, it is difficult and most likely impossible to identify a single, prescriptive, approach which SMEs might follow in employing strategic approaches. However in this paper we argue that it is possible to identify critical areas of strategic activity which support firm resilience, and through analysis and empirical study of strategic activity, offer 'good practice' examples which could serve to direct the development of appropriate management competence. For this reason our study focuses on SMEs that have been in existence for more than 5 years. These firms have been able to successfully survive for a number of years and this group therefore provides a useful sample for studying strategic activity.

#### RESEARCH OBJECTIVE AND RESEARCH QUESTIONS

Against this backdrop, the *objective* of this research is to determine whether Australian SMEs could be characterised as 'deliberate' or 'emergent' in their strategic approaches. Integral to this objective is answering the following questions in three orientations to our research objective. First, we focus on strategic practice prevalence. Second, we provide an insight into the profile of strategic practice in terms of SME size. Finally we focus on the deliberate versus emergent dichotomy.

Our first research question focuses on providing descriptive trend data on the prevalence of strategic practices in SMEs. In other words, collectively, what practices are most common and what practices are marginalised among our large sample of SMEs?

RQ1: What is the current prevalence of strategic practices in Australian SMEs?

Our second research examines the patterning of strategic practices by firm size.

RQ2: To what extent does firm size differentiate the patterning and prevalence of strategic practices?

The third research question provides a snapshot of the state of current strategy making in Australian SMEs in relation to two strategic approaches: 'deliberate' and/or 'emergent'.

RQ3: Could Australian SMEs be characterised as 'deliberate' or 'emergent' in their strategic approaches?

Our study does not pretend to offer an all inclusive coverage of the field of strategy approaches. We did not study the relationship between the strategy making mode and the specific strategies employed by the SMEs. For instance, one could argue, that product innovation strategies require a specific strategy making mode in contrast to companies pursuing a quality management strategy. Furthermore, we have not studied the role of managerial competencies in strategy making approaches, nor did we compare the strategy making approaches within different industries (e.g., services, manufacturing etc.). Rather through empirical analysis, our study contributes to the deliberate versus emergent strategy making debate within the Australian SME context.

### STRATEGIC APPROACHES IN SMEs

Gibcus and Kemp (2003) distinguish between three typologies: the 'business matrix' approach, a 'theoretical approach' and an 'empirical/statistical' approach. The first approach assist corporate managers and analysts in ranking the business units (or products) on the basis of their relative market shares and growth rates. The overall goal of this type of ranking is to assist corporate analysts in their decision-making regarding which of their business units to fund, and how much; and which units to sell. The second approach concerns the strategy of firms in an industry. Gibcus and Kemp (2003) argue that even though this typology is more theoretical in nature, the actual ideas concerning the strategies can be derived from practice (see for example the earlier work

of Chandler, 1962, Porter, 1980, and Miles and Snow, 1978). Within the theoretical approach there is a distinction between process and content (Hanlon & Scott 1993). Process research predominantly focuses on how firms go about formulating their strategies (see e.g., Fletcher & Harris, 2002; Hart, 1992; Mintzberg & Waters, 1985), in other words on the actions that lead to and support strategy. Content research focuses on generic strategies (see for example Miles & Snow, 1978; Porter, 1980). The third approach commences with a relatively large number (20 or more) of variables that measure the strategic behaviour of firms. Clusters of firms with similar strategic behaviour are constructed and the underlying strategic factors are further examined. This is done in an attempt to conduct common strategy typologies often closely related to generic strategies (Gibcus & Kemp, 2003).

The focus of both the first approach and third approach is on generic strategies, whereas the focus of our study is on the theoretical approach and on strategy as a process, analysing how SMEs go about formulating their strategies.

Regarding the latter, Mintzberg's (1973), classical work described the strategy making process in terms of entrepreneurial, adaptive or planned actions. While the entrepreneurial model is characterised by a permanent search by an entrepreneur for new opportunities; the adaptive model is characterised by managers who try to avoid uncertainty by reacting with solutions to existing problems. In the planned mode, continual analyses by strategists dominated the strategy making process.

While these three modes of developing strategy are informative, further insights into the process were gained when Mintzberg (1987) presented his views on crafting strategy. The dominant view in the literature of the strategy process has been one of a planned, deliberate and rational set of actions (see Andrews, 1980). However, Mintzberg (1973, 1994) was one of the first writers to challenge the assumption that such formalised planning approaches had a positive effect on a firm's performance and suggested that strategy formulation could also be seen as a social, emergent process that could also have a significant impact on performance. In contrast authors such

as Van Gelderen et al. (2000) argue that there is a positive correlation between a higher use of a complete planning strategy (a proactive attempt to actively structure the firms' situation) and success. Similarly it was found that the reactive strategy (strategy that is driven by the situation and in which actions are not planned) was found to be associated with failure.

Deliberate strategies are strategies where intentions that existed previously were realised (Mintzberg, 1987). Gibcus and Kemp (2003) suggest that comparing intended strategy with realised strategy has helped to distinguish deliberate strategies (realised as intended by the planners) from emergent strategies (patterns or consistencies realised despite, or in absence of, intentions). Therefore, deliberate and emergent strategies are independent of each other as intended strategies might go unrealised while emergent strategies appear without preconception (Harris et al., 2000). Hence, Mintzberg's challenge has resulted in another view of the strategy development process with two orientations: the deliberate and planned approach on the one hand and the emergent social process on the other.

The fundamental difference between deliberate and emergent strategy is that the former focuses on direction and control and getting desired things done while the latter is based on the notion of strategic learning and adaptive behaviour. Mintzberg 1990, cited in Hutter and Wiechmann (2005, p. 1) argues that emergent strategy, means literally, 'unintended order'. Hutter and Wiechmann (2005) points out that an emergent strategy can be likened to a pattern in a stream of decisions and actions, where the strategic relevance of the pattern is identified in retrospect. He further argues that emergent strategies are therefore intention-interpreted, not intention-driven.

However, Mintzberg (1987, p. 69) points out, 'in practice, of course, all strategy making walks on two feet, one deliberate, the other emergent'. For just as purely deliberate strategy making precludes learning so purely emergent strategy making precludes control. Pushed to the limit, neither approach makes much sense. Learning must be coupled with control. Control and organisational

learning then become two significant aspects in any strategy development process for reducing uncertainty and developing capabilities for adaptive behaviour.

In the past 40 years, strategic management scholars have investigated the strategy making processes of firms and their impact on firm performance but few studies have investigated and developed models of strategy making in small firms (Verreynne, 2006). More specifically, strategy process research has been narrow in its focus and lacking in its analytical foundations (Pettigrew, 1992) and the small collection of empirical evidence for the emergent nature of strategy has so far mostly been analysed by case studies (e.g., Currie, 1999; Spence, 2003).

Only a few SME studies utilised survey methodology in examining emergent strategies, including Covin and Slevin (1989, 1998); Gibbons and O'Connor (2005); and Verreynne (2006). The study by Covin and Slevin (1989) distinguished between formal, planned strategy formation and informal, emergent strategy formation in their survey of small firms in hostile and benign environments. They found no direct relationship between strategy formation and firm performance but when organisational structure is introduced as an intervening variable, their results are more informative. It seems that a planned strategy is positively related to firm growth when associated with a mechanistic organisational structure while an emergent strategy is positively associated with a more organic structure. These results point to the influence of contingency variables when considering the influence of planned and emergent approaches on various performance outcomes (Slevin & Covin, 1997).

The study by Gibbons and O'Connor (2005) surveyed 359 Irish SMEs and concluded that entrepreneurial firms tend to adopt more formalised planning approaches while firms with a conservative orientation use incremental methods of strategy formation. In addition, those firms that had a mechanistic structural orientation tended to use more formal planning processes and those with an organic orientation tended to have a more emergent response to strategy development. This reinforced the Covin and Slevin (1998) study.

Verreynne (2006) surveyed the role of strategy making in 477 small New Zealand firms and found that four modes of strategy making (simplistic, adaptive, entrepreneurial and participative) exist in these SMEs (The emergent mode of strategy making is associated with the adaptive mode).

Small and medium enterprises therefore provide a very interesting context for analysing strategy approaches because they employ a broad scope of strategic behaviour ranging from deliberate strategy making on the one end of the continuum to emergent almost non-planning strategy making at the other end (Leitner, 2007). Using such a continuum, and informed by the research mentioned above, this study examines in greater detail the issue of deliberate versus emergent strategic approaches within the Australian SME context.

These two approaches (the deliberate process versus an emergent process) are contrasted in Table 1. Harris et al. (2000) describe various components of these two approaches which correspond with five of the overall dimensions measured in our study (see the first five dimensions in Table 1). However, their focus was on qualitative case studies of young and innovative entrepreneurial firms and measured eight strategy dimensions. In contrast our study represents a large scale quantitative survey, focusing on mature SMEs and measuring six strategy dimensions.

Our sixth dimension is 'Relevance of a strategic plan to the ongoing success of the business'. We have included this dimension because it gives an indication of the mindset of SME managers. We argue that a SME manager who attaches importance to the link between strategic planning and success of the business would be more inclined to engage in more deliberate strategy approaches. This was supported by correlating the relevance of strategic plan with the nature of strategic planning. The results revealed a significant statistical correlation (chi-square: 279.145; significant at  $p < 0.01$ ). In a follow-up study it would be useful to also measure the other three dimensions identified by Harris et al. (2000): 'formality of discourse' (the formality within which planning discussions take place); 'choices and decisions' (the extent to which choices and decisions are

made at marked decision points); and the use of 'outside advisors' (the extent to which outside advisors are used for one-off analytical projects to assist discrete decisions).

Table 1 firstly summarises the six dimensions of 'deliberate' versus 'emergent' approaches of strategy formulation analysed in this paper. Secondly, the table matches the relevant hypotheses developed in relation to Research Question 2 with the respective dimensions. Thirdly, the table reflects how we have measured these dimensions through specific survey questions.

## RESEARCH METHODOLOGY

The research aimed to determine the current orientation in strategic approaches within Australian SMEs. Therefore, this study provides a snapshot of the state of current strategy making in Australian SMEs in relation to how Australian SMEs plan.

The questionnaire included a range of demographic variables and a range of questions measuring the following components of strategy formulation:

- (1) 'The use of formal/written strategic and business plans'. This was measured by questions regarding the nature of strategic planning; establishment of a business/operational plan; and the extent to which resulting plans emanating from their business/operational plans are written.
- (2) 'Analytical processes' were measured by questioning respondents what strategy making tools/techniques they utilised and what systematic analysis they undertake including a range of areas in overall strategy.
- (3) 'Involvement of others in the strategy process' which was measured by asking respondents which people are involved in the strategic planning process.
- (4) 'The use of objectives in the strategy process'. This was measured by asking respondents whether specific goals and objectives have been identified as part of the strategy process.
- (5) 'Review of outcomes against objectives' which was measured by asking respondents whether the business altered its practices in order to achieve the goals and objectives

**TABLE 1: DELIBERATE AND EMERGENT STRATEGY APPROACHES EMPLOYED IN THIS STUDY**

Components of the strategy process	Deliberate approach	Emergent approach	How the dimensions were measured	Hypotheses
1. Strategic/ Business Plans	Strategic thinking and action is undertaken with the use of a framework of a written business plan	Strategic thinking and action is undertaken without a written business plan	<b>See Table 2</b> The extent to which the firm employs a written strategic plan <ul style="list-style-type: none"> <li>• Establishment of business/operational plan</li> <li>• Extent to which resulting plan is written</li> <li>• Vision, mission or statement of values in written format</li> </ul>	H1: Medium enterprises are more likely than small enterprises to employ a written strategic plan H2: Medium enterprises are more likely than small enterprises to have resulting plans that are written H3: Medium enterprises are more likely than small enterprises to have a vision, mission or statement of values in written format.
2. Process of analysis	Decisions and actions are clearly preceded by analysis in a staged manner	Evolve as a result of continual interplay between thinking, analysis and decision	<b>See Table 3</b> <ul style="list-style-type: none"> <li>• Tools/techniques to help compile strategic business plan</li> <li>• Areas of analysis included in overall plan of strategy of the business</li> </ul>	H4: Medium enterprises are more likely than small enterprises to use formal tools in compiling strategic plans H5: Medium enterprises are more likely to include a range of areas of analysis than small firms
3. Organisational boundaries	Those involved in strategic discussions reflect the boundaries of the organisation as a whole and between formulators and implementers	Those involved in strategic discussions can be from anywhere within the organisation and without it	<b>See Table 4</b> <ul style="list-style-type: none"> <li>• People involved in the strategic planning process</li> </ul>	H6: Medium enterprises are more likely than small enterprises to involve people in the strategic planning process of the organisation
4. Use of objectives	Setting of objectives is a formal, central and referred to part of the strategic process	Setting of objectives is not implemented or referred to	<b>See Table 5</b> <ul style="list-style-type: none"> <li>• Have specific goals and objectives been identified as part of strategic/bus plan?</li> </ul>	H7: Medium enterprises are more likely than small enterprises to use objectives as a central part of the strategic planning process
5. Outcome review	The review of outcomes is against decisions and objectives and is periodic, possibly scheduled	The review of outcomes is against visions and is unstructured, subjective and continual	<b>See Table 6</b> <ul style="list-style-type: none"> <li>• Has the business altered its practices in order to achieve the goals and objectives identified in strategic/bus plan?</li> <li>• How often are plan subsequently reviewed?</li> </ul>	H8: Medium enterprises are more likely than small enterprises to alter their practices in order to achieve the goals and objectives identified in the strategy process H9: Medium enterprises are more likely than small enterprises to review plan in a periodic scheduled manner

(Continued)

TABLE 1: CONTINUED

Components of the strategy process	Deliberate approach	Emergent approach	How the dimensions were measured	Hypotheses
6. Managerial views on relevance of a formal strategy processes	The view that formal written business strategic plans are vitally important to ongoing success of business	The view that formal written business plans are completely irrelevant and that it is more important to be running the business than writing business plans	See Table 7 • Relevance of strategic plan to ongoing success of business	H10: Medium enterprises are more likely than small enterprises to view formal written business strategic plans as vitally important to the ongoing success of business

Source: Developed for this paper. The first five dimensions corresponds with the components identified by Harris et al. (2000).

TABLE 2: STRATEGIC PLANS EVIDENT IN AUSTRALIAN SMEs

Survey questions	f	%	Size		Chi-Square
			Small (%)	Medium (%)	
<b>The extent to which the firm employs a strategic plan</b>					32.645**
Does not have a strategic plan	132	11	13	9	
Has a strategic plan, but it's not written down	243	20	26	15	
Has a written strategic plan but it's not used to develop operational plans	132	11	10	11	
Has a written strategic plan that is used to develop operational plans and drive day-to-day operations	711	58	51	65	
<b>Established a business/operational plan</b>	993	81	79	84	5.455*
<b>Are the resulting plans:</b>					63.817**
All written	554	54	42	66	
Some are written	429	42	52	33	
None is written	36	4	6	1	
<b>Which of the following does the company have in written format:</b>					
Vision statement	188	37	29	44	5.956*
Mission statement	228	44	54	33	64.818**
Statement of values	72	14	10	19	9.456**
All of the above	27	5.2	7	4	3.083

\* $p < 0.05$ , \*\* $p < 0.01$ .

identified and how often plans are subsequently reviewed after formulation.

- (6) 'Managerial views on relevance of a formal strategy processes' which was measured by asking respondents their opinion on the relevance of formal written business plans to the ongoing success of their businesses.

In this study, small businesses constitute 100 or fewer employees, (applying the Australian Bureau of Statistics definition of small business in manufacture to all industries) and medium-sized businesses range from 101 to 200 employees. However, we used 10 employees as the lowest extremity for size because such organisations are



TABLE 3: PROCESS OF STRATEGIC ANALYSIS WITHIN AUSTRALIAN SMEs

Survey questions	f	%	Size		Chi-Square
			Small (%)	Medium (%)	
<b>Tools/Techniques to help compile strategic plans</b>					
Spreadsheets	905	74	74	75	0.218
Brainstorming	860	70	68	72	-0.047
SWOT analysis	713	58	50	66	29.430**
External consultants/experts	456	37	33	41	9.063**
Financial software planning tools	360	29	26	33	7.076*
Business planning software	156	13	10	15	5.590*
Competitive Performance Matrix (CPM)	140	11	9	14	8.172*
Internal factor evaluation (IFE) matrix	132	11	9	13	4.094*
External factor evaluation (EFE) matrix	129	11	6	14	20.805**
TOWS analysis	96	8	6	9	3.083
Porter five forces model analysis	78	6	5	8	3.862*
<b>Areas of planning for ongoing performance</b>					
Financial	923	93	94	93	0.305
Human resources	740	76	70	82	18.224**
Marketing	743	75	72	79	6.527*
Sales	684	70	70	71	0.274
Technology (including IT)	680	69	62	77	25.998**
Production/manufacturing	658	48	46	49	0.526
<b>Areas of analysis in overall strategy</b>					
Firms financial circumstances	965	81	80	81	3.037
Firm's current sales performance	789	65	65	65	0.003
Firm's competitors	711	58	57	59	0.333
Firm's future sales performance	690	57	56	58	3.487
The firm's human resources/staff	689	57	54	60	5.136*
Firm's future marketing requirements	693	56	55	58	1.070
Firm's current marketing requirements	660	54	50	57	6.279*
Recruitment requirements	614	51	47	54	6.325*
External technology trends (other than computer specific)	495	41	33	48	25.445**
Federal government policies	482	40	38	40	0.723
State government policies	458	37	35	40	2.534
International trends and events	459	37	35	40	3.540
Firm's current production/manufacturing/service circumstances	444	36	35	37	0.356
Firm's future production/manufacturing/service performance	408	33	28	37	17.163**
External computer technology trends	363	30	28	32	2.100
Internet specific technology trends	315	26	23	29	6.361*
Local government policies	231	19	18	21	4.360

\* $p < 0.05$ , \*\* $p < 0.01$ .

**TABLE 4: NATURE OF ORGANISATIONAL BOUNDARIES IN AUSTRALIAN SMEs**

Survey questions	f	%	Size		Chi-Square
			Small	Medium	
<b>People involved in the strategic planning process:</b>					
Chief executive	794	64.8	53.9	75.4	61.947**
<b>Others players in firm:</b>					
Financial manager	752	61.3	48.2	74	86.442**
Board of directors	587	47.8	43	52.4	10.945**
Middle managers	578	47	38.5	55.6	35.722**
Sales manager	498	40.5	36.7	44.2	7.239*
Marketing manager	473	38.6	29.6	47.3	40.774**
Individual company directors	471	38.4	38.4	38.5	2.911
Human Resource Manager	453	36.9	23.3	50	94.052**
Production manager	362	30	28.8	32.2	0.829
IT manager	318	25.9	14.4	37	82.085**
External consultants	261	21.2	15.9	26.4	20.535**
Supervisors	225	18.4	13.9	22.9	16.579**
All staff	182	14.9	12.3	17.4	6.274*
<b>Players outside firm:</b>					
Knowledgeable friends	156	12.7	11.4	14	1.872
Company's auditors	138	11.2	7.4	14.9	17.177**
Knowledgeable family members	99	8.1	6.4	9.6	4.165*

\* $p < 0.05$ , \*\* $p < 0.01$ .

**TABLE 5: USE OF SETTING OBJECTIVES IN AUSTRALIAN SMEs**

Survey question	f	%	Size		Chi-Square
			Small (%)	Medium (%)	
Have specific goals and objectives been identified as part of strategic/bus plan?	980	95	92	98	18.966**

\* $p < 0.05$ , \*\* $p < 0.01$ .

expected to have some kind of a management structure.

The study utilised a positivist research paradigm through the use of quantitative research methodology in the form of a survey questionnaire (Johnson & Onwuegbuzie, 2004). A survey questionnaire was developed to measure strategy formulation processes in Australian SMEs. Survey methodology was employed in this study owing to the large number of respondents involved (Zikmund, 2003).

The validity of the questionnaire was addressed by examining the content validity and reliability. The content validity of the constructs

employed in the survey as well as their relevance were tested through an initial qualitative phase of the research. This involved interviews with an additional 14 SME managers (one from each of the ABS industry categories); five interviews with Australian academics researching in the strategy area; and five interviews with a multinational group of academic strategy experts from New Zealand, The Netherlands, Malaysia, South Africa and Canada. These individuals were asked to comment on the suitability of each item. Discussions were also held with members of the Chamber of Commerce which is an Australian

**TABLE 6: OUTCOME REVIEW EVIDENT IN AUSTRALIAN SMEs**

Survey questions	f	%	Size		Chi-Square
			Small (%)	Medium (%)	
Has the business altered its practices in order to achieve the goals and objectives identified in the strategy process	179	55	51	50	1.803
How often are plans subsequently reviewed					
Weekly	78	8	8	8	27.340**
Monthly	372	36	37	36	
Quarterly	341	33	29	37	
Annually	159	16	15	16	
Other timing	24	2	3	1	
As circumstances require	48	5	8	2	

\*p < 0.05, \*\*p < 0.01.

**TABLE 7: RELEVANCE OF STRATEGIC PLAN EVIDENT IN AUSTRALIAN SMEs**

Measurement constructs	f	%	Size		Chi-Square
			Small (%)	Medium (%)	
Relevance of strategic plan to ongoing success of business					7.843
Vitaly important or important	367	94	94	47.3	
Completely irrelevant	24	6	6	5.9	

\*p < 0.05, \*\*p < 0.01.

employer representative body. Furthermore, the survey questionnaire was also tested and modified through a pilot phase which formed part of the field work phase of the project. This involved 20 SME managers. Following Lawshe (1975, p. 567), each SME manager was asked, whether each of the questions designed to measure whether specific strategic practices listed in the questionnaire were essential, useful but not essential, or not necessary regarding the inclusion of the practices in the questionnaire. Examples of revisions to the questionnaire include: the removal of some redundant or ambiguous questions, the addition of new categories of response to some questions and the revision of the structure of some of the questions. The reliabilities analysis indicated Cronbach alpha coefficients of between 0.70 and 0.90 for each section of the questionnaire.

The questionnaire was sent out to a representative sample of 4000 Australian small and medium-sized enterprises. A Dun and Bradstreet

database was used and stratified sampling was employed according the following criteria: all ABS industry categories excluding agriculture; employee size between 10 and 200 employees; a personalised address label targeting the CEO or MD; and representation of each state and territory in Australia. We were careful to reduce contextual effects as a result of respondent bias by addressing the content validity and reliability issues as outlined above.

Action to encourage organisations to respond to the survey included a covering letter explaining the purpose of the survey, provision of a reply paid envelope, follow-up letters and an assurance of confidentiality. After allowing for incorrect mail addresses and closed businesses (approximately 9% or 349 questionnaires of the total sample), a response rate of 34% was achieved (N = 1230).

Ethical clearance was obtained through a university research ethics committee. Participants were able to withdraw from the questionnaire

at any time simply by not continuing with it. Confidentiality has been preserved by the researcher in accordance with the ethical guidelines of the relevant University.

SPSS was used to analyse the data. In relation to research questions 1 and 3, descriptive statistics were used to describe the demographics and summarise the data. These are presented in the form of percentage distributions in order to identify trends in the data. In relation to research question 2, differences between small size and medium-size enterprises were assessed using the non-parametric chi-square test for relatedness.

### Demographic profile of respondents

Small businesses (fewer than 100 employees) constituted 49% of the sample and medium businesses (101–200 employees), 51%. The ABS industry categories were used to describe the main operations of the organisations. The highest proportion of questionnaires was received from Queensland (32%), NSW (26%), Victoria (21%), Western Australian (7%) and South Australia (5%). The ACT and Northern Territory comprised the other 9% of the sample.

Thirty-nine percent of organisations were family organisations of which family members were working directors of 59% of these organisations. Sixty percent exported their products or services of which 87% had been exporting for more than 3 years. Less than 5% of SMEs were franchise operations. Almost one-third of organisations operated from a single location, more than half of the respondents operated in 2–10 locations and the remainder in more than 10 locations. The respondent organisations could be said to be 'surviving' businesses with having been established for more than 5 years (10% for more than 5 years and 90% for more than 10 years).

Forty-five percent of SMEs did not have a designated manager whose principle responsibility covered human resource management and 50% reported having a HR department. Fifty-three percent of respondents said their organisation has at least one union member with more than two-thirds of the sample estimating that there was less than 10% union membership. Eighty-five percent

of respondents claimed to have a post-secondary school qualification of which, 69% were older than 45 years, 40% were owners or part owners and 34% were female.

### RESULTS: STRATEGIC APPROACHES IN AUSTRALIAN SMEs

This section reports the results regarding our study's three research questions: current prevalence of strategic practices in Australian SMEs; the extent to which firm size differentiates the prevalence of strategic practices; and state of current strategy making in Australian SMEs in relation to two strategic approaches: 'deliberate' and/or 'emergent'. The discussion below is structured according to the six components associated with the 'deliberate' versus the emergent approach to strategy making as summarised in Table 1. The first two research questions are an integral part of this discussion.

For the purpose of this paper, an aspect of the strategy process is described as deliberate when more than two-thirds (66.7%) of respondents employ a particular aspect of the strategy process. It is described as mixed when between 33.3 and 66.7% of respondents employ a particular aspect and it is described as emergent when less than a third (33.3%) of respondents employ a particular aspect of the strategy process (as per Table 1). These percentages are reversed depending upon the nature of the direction of the scale of the particular questions regarding the strategy process, for example, a low percentage in relation to the component 'organisational boundaries' (see Table 4) will constitute a 'deliberate' approach.

*Component 1:* The extent to which strategic thinking and action are undertaken with the use of a framework of a written business plan (the strategy aspect of strategic/business plans; Harris et al., 2000) comprises four questions in the survey, including: the extent to which the SME utilises a strategic plan; the establishment of a business/operational plan, the extent to which the resulting plans for planning the ongoing performance of the SME are written; and which formal statements the SME has compiled and maintained – vision, mission and statement of values. The results are summarised in Table 2.

Table 2 shows evidence of a high level of usage of strategic/business plans in relation to three of the four practices. The results indicate some large effects across the two firm sizes. Medium-size firms were more likely to engage in strategic/business planning than their smaller counterparts. Overall 69% of SMEs reported having a written strategic plan (62% of small compared to 76% of medium enterprises); 81% of SMEs have established a business/operational plan (79% of small compared to 84% of medium enterprises), 96% of SMEs indicated that the resulting plans are either all written or some are written (94% of small compared to 99% of medium enterprises).

Eighty-one percent of SMEs have either a written vision or mission statement. The strategic practices less commonly employed encapsulate a statement of values (14%). There was some size effect where small firms were less likely to engage in the formalisation of a vision statement and statement of values. However the opposite was true regarding the formalisation of a mission statement. These results indicate an overall trend of respondents to be deliberate in their approach to undertake strategy with the use of a framework of a written business plan.

In view of the findings in Table 1:

H1: Medium enterprises are more likely than small enterprises to employ a written strategic plan, could be accepted;

H2: Medium enterprises are more likely than small enterprises to have resulting plans that are written, could be accepted; and

H3: Medium enterprises are more likely than small enterprises to have a vision, mission or statement of values in written format, could be accepted.

*Component 2:* The nature of the *process of analysis* (Harris et al., 2000) comprises nine dimensions in the survey. The questions measuring this component provide relevant information regarding the extent to which structured analysis precede decision. This component includes the questions relating to the use of: popular formal tools; sophisticated tools; planning software; formal planning advisors, and informal planning advisors. It also measures the

inclusion of specific areas of analysis *included in the overall strategy of the business* including areas relating to: tangible competitive advantage; production; technology and skills; and external contingencies.

The most popular strategy tools/techniques included well known formal tools including spreadsheets (74%); brainstorming (70%) and SWOT analysis (58%). SMEs' high engagement in these three formal tools/techniques are indicative of a deliberate approach to the component 'process of analysis', despite SMEs' propensity to shy away from less well known sophisticated tools/techniques.

Furthermore, medium enterprises employ eight of the eleven tools to a significantly greater extent than small organisations. Therefore,

H4: Medium enterprises are more likely than small enterprises to use formal tools in compiling strategic plans; could be accepted.

At first glance, Table 3 reveals a generally high level of inclusion of various planning areas for the ongoing success of the business (five of the six areas stated in the survey), which is indicative of a deliberate approach to planning.

The trend in relation to the inclusion of various areas of analysis in the overall strategy tended to be lower when compared to the other strategic approaches reported on so far. A high level of inclusion of only one area of analysis was revealed – the firm's financial circumstances. A moderate level of inclusion was found in relation to 12 of the 17 areas (36–65%) and a low level of inclusion in the remainder four areas (18–33%).

In view of these results, it appears that SMEs display a moderate to high preference for decisions and actions to be preceded by analysis in a staged manner, which is in line a deliberate approach.

Overall, only nine of the 23 areas of analysis were included to a greater extent by medium firms, therefore,

H5: Medium enterprises are more likely to include a range of areas of analysis than small firms, could be rejected.

*Component 3: Nature of organisational boundaries* from the deliberate perspective, refer to whether those involved in strategic discussions

reflect the boundaries of the organisation as a whole and between formulators and implementers; and from the emergent perspective whether those involved in strategic discussions are from anywhere within the organisation and without it.

When observing the component 'organisational boundaries', the trend in SMEs overall and in small and medium enterprises respectively, is to mainly involve people in the strategic process who are within the boundaries of the organisation. It is clear that the CEO is the main player in the strategic process (65%), with the financial manager also playing an important part (61%). Furthermore, there is a moderate involvement of other players in the firm (ranging from 15 to 50%) and a very low participation of external players (less than 22%). These findings indicate a deliberate approach to strategy making.

It is also evident that medium enterprises include 13 of the 16 internal participants listed in Table 4 to a significantly greater extent than small enterprises. Therefore,

H6: Medium enterprises are more likely than small enterprises to involve people in the strategic planning process of the organisation, could be accepted.

*Component 4:* Use of setting objectives, has to do with the degree to which the setting of objectives is a formal, central and referred to part of the strategic process in Australian SMEs.

*Objective setting* is an integral part of the strategic process in respondent organisations as is evident from their response to the component 'use of setting objectives'. Ninety-five percent of SMEs overall, as well as small and medium enterprises respectively, reported that they have identified goals and objectives as part of the strategic/business plan. SMEs therefore seem to employ a more deliberate approach in relation to this component.

However medium enterprises have done this to a significantly greater degree than small enterprises. Therefore,

H7: Medium enterprises are more likely than small enterprises to use objectives as a central part of the strategic planning process, could be accepted.

*Component 5:* Outcome review, reflects the extent to which Australian SMEs review outcomes against decisions and objectives and whether this is done periodically, and possibly scheduled.

In relation to the component 'outcome review', more than half of the respondents have altered their business practices in order to achieve their goals and objectives identified in process. Further to this component, more than 90% of respondents indicated that they review their plans periodically (either weekly, monthly, quarterly or annually). It therefore appears that SMEs employ a moderate to high deliberate approach regarding this component. No significant difference was found regarding the degree to which medium and small firms alter its practices in order to achieve the goals and objectives identified in the strategy process, therefore

H8: Medium enterprises are more likely than small enterprises to alter their practices in order to achieve the goals and objectives identified in the strategy process, could be rejected.

However medium enterprises (97%) review their plans significantly more often than small enterprises (89%), therefore,

H9: Medium enterprises are more likely than small enterprises to review plan in a periodic scheduled manner, could be accepted.

*Component 6:* Relevance of Strategic Plan

The strategy component 'relevance of strategic plan' gives an indication of the mindset of SME manager in relation to the deliberate versus emergent continuum.

Ninety-four percent of respondents indicated that they view a strategic plan as either vitally important or important to the ongoing success of their business. It is therefore clear that respondents have a mindset commensurate with the deliberate approach.

Ninety-four percent of medium and small firms alike indicated that a strategic plan is vitally important or important to the ongoing success of their business.

H10: Medium enterprises are more likely than small enterprises to view formal written

business strategic plans as vitally important to the ongoing success of business, could be rejected.

### Summary of results

Table 8 summarises the overall findings outlined above.

### DISCUSSION

Overall, the results of this study on the perceptions of SME managers regarding the strategic approaches they use in their firms, support the notion of a deliberate approach to strategy making in Australian SMEs. This is in line with Bahae's (1992, p. 199) 'synoptic' view of the strategic planning process. By synoptic, Bahae (1992) refers to a comprehensive proactive and logical approach whereby factors, such as internal and external environmental analysis; goal establishment, SWOT compilation and evaluation of alternatives are considered and compiled into a formal plan. Lyles et al. (1993) concur with the synoptic view, citing Bracker, Keats, and Pearson's (1988) identification of eight planning components: objective setting; environmental analysis; SWOT analysis; strategy formulation; financial projections; functional budgets; operating performance measurement; and control procedures. Bahae (1992) argues that the opposite view is characterised by a more incremental view.

The results of this study also align with Mcmillan and Tampoe's (2000, p. 16) view on the 'Classical School' of business strategy. They argue that its roots stem from a military strategy model, and view it as incorporating the three prescriptive schools of strategic thought espoused by Mintzberg, Ahlstrand, and Lampel (1998) being design, planning and positioning (Mcmillan & Tampoe, 2000, p. 25). Mcmillan and Tampoe (2000, p. 16), further states that this model has never been replaced by a more comprehensive or 'better' alternative view of business strategy.

The 'Classical School' and hence the deliberate approach, has been significantly criticised from 'at least three directions' (Mcmillan & Tampoe, 2000). This criticism includes that: companies using the classical strategic management approach

have not necessarily been more successful than those who did not; that the classical approach is suitable for large firms rather than smaller ones; and that the classical model was too closely allied with military-style thinking and failed to incorporate views of strategic thinking adopted from other fields such as psychology and sociology (Mcmillan & Tampoe, 2000).

The results of our study seem to refute the second criticism that the classical approach is suitable for large firms rather than smaller ones since a high level of evidence of the use of strategic/business plans has been found. The results are also in contrast with authors' such as Beaver and Prince (2004) view, that a case can be made that complex and detailed strategies are a distraction for all but the largest companies, as only these can use such strategies to sustain the competitive advantage that makes an investment in such planning worthwhile.

However, our findings are in line with Stonehouse and Pemberton's (2002) UK study of manufacturing and service sector SMEs, which indicates that the majority of SMEs adopt a highly structured approach to planning, although it was found that amendments, either occasionally or frequently occur.

Furthermore, our results reveal a generally high level of inclusion of various planning areas for the ongoing success of the business. In relation to strategy tools, the most popular strategy tools/techniques included well known formal tools such as spreadsheets, brainstorming and SWOT analysis. SMEs' high engagement in these three formal tools/techniques is indicative of a deliberate approach to the component 'process of analysis' measured in this study (Bahae, 1992; Lyles et al., 1993; Mcmillan & Tampoe, 2000), despite the fact that SMEs only employ a limited set of strategic tools. Stonehouse and Pemberton (2002) reported similar findings in UK SMEs, with limited use of a range of tools.

In addition, the results were indicative of a trend in SMEs overall and in small and medium enterprises respectively, to mainly involve people in the strategic process who are within the boundaries of the organisation. The CEO features as the main player in the strategic process, with the

**TABLE 8: SUMMARY OF RESULTS**

Components of the strategy process	Deliberate approach	Emergent approach	Trend overall	Hypotheses	Outcome of hypotheses testing
1. Strategic/ Business Plans	Strategic thinking and action is undertaken with the use of a framework of a written business plan	Strategic thinking and action is undertaken without a written business plan	<b>Deliberate</b>	H1: Medium enterprises are more likely than small enterprises to employ a written strategic plan H2: Medium enterprises are more likely than small enterprises to have resulting plans that are written H3: Medium enterprises are more likely than small enterprises to have a vision, mission or statement of values in written format	<b>Accept</b> <b>Accept</b> <b>Accept</b>
2. Process of analysis	Decisions and actions are clearly preceded by analysis in a staged manner	Evolve as a result of continual interplay between thinking, analysis and decision	<b>Deliberate</b>	H4: Medium enterprises are more likely than small enterprises to use formal tools in compiling strategic plans H5: Medium enterprises are more likely to include a range of areas of analysis than small firms	<b>Accept</b> <b>Reject</b>
3. Organisational boundaries	Those involved in strategic discussions reflect the boundaries of the organisation as a whole and between formulators and implementers	Those involved in strategic discussions can be from anywhere within the organisation and without it	<b>Deliberate</b>	H6: Medium enterprises are more likely than small enterprises to involve people in the strategic planning process that reflects the boundaries of the organisation	<b>Accept</b>
4. Use of objectives	Setting of objectives is a formal, central and referred to part of the strategic process	Setting of objectives is not implemented or referred to	<b>Deliberate</b>	H7: Medium enterprises are more likely than small enterprises to use objectives as a central part of the strategic planning process	<b>Accept</b>
5. Outcome review	The review of outcomes is against decisions and objectives and is periodic, possibly scheduled	The review of outcomes is against visions and is unstructured, subjective and continual	<b>Deliberate</b>	H8: Medium enterprises are more likely than small enterprises to alter their practices in order to achieve the goals and objectives identified in the strategy process H9: Medium enterprises are more likely than small enterprises to review plan in a periodic scheduled manner	<b>Accept</b> <b>Accept</b>

(Continued)



TABLE 8: CONTINUED

Components of the strategy process	Deliberate approach	Emergent approach	Trend overall	Hypotheses	Outcome of hypotheses testing
6. Managerial views on relevance of a formal strategy processes	The view that formal written business strategic plans are vitally important to ongoing success of business	The view that formal written business plans are completely irrelevant and that it is more important to be running the business than writing business plans	<b>Deliberate</b>	H10: Medium enterprises are more likely than small enterprises to view formal written business strategic plans as vitally important to the ongoing success of business	<b>Reject</b>

financial manager also playing an important part. Harris et al. (2000) argue that a low involvement of other players in the firm and a low participation of external players in the strategy making process is indicative of a deliberate approach to strategy making. The results indicate only a moderate level of participation of external players in the strategy making process. The results of our study, align to a certain extent with Nankervis, Compton, and Savery's (2002) Australian study on strategic Human Resource Management in which they found that strategies and plans are largely determined by the CEOs in conjunction with their senior (but not HR) managerial colleagues, with some involvement from their boards of directors.

The development of business objectives in the form of a formal statement such as business plans, is seen as a normal part and an essential component of strategic planning (Beaver & Prince, 2004). Functional objectives tend to flow from these plans. In the current study, overall, SMEs overwhelming indicated that they have identified goals and objectives as part of the strategic/business plan.

Another key feature of the deliberate approach is the production of a mission statement (Barnes, 2002). Together with a written plan, such a statement could form the foundation for the structuring of an in-depth set of objectives for all functional areas of the business (Mintzberg, 1994 in Barnes, 2002). Our results indicate that the majority of SMEs have either a written vision or

mission statement, even though a statement of values was prevalent in the minority of SMEs. Furthermore, it seems that SMEs display a moderate to high preference for decisions and actions to be preceded by analysis in a staged manner, in other words, in line with a deliberate approach. It appears that Australian SMEs do plan strategically in the sense of having written vision and mission statements supported by business level objectives. Stonehouse and Pemberton (2002) reported similar results in the UK manufacturing and service sectors.

Authors such as Richardson (1991, 1995); Joyce, Seaman, and Woods (1996); Banfield, Jennings, and Beaver (1996); Hannon and Atherton (1998); Georgellis, Joyce, and Woods (2000); Beaver and Ross (2000) and Beaver (2004) argue that strategic awareness as a specific capability is significant to the shaping of the strategic posture of the organisation. In other words strategic awareness capability of the SME manager is imperative to the growth and business success of the SME because the strategic awareness of the SME manager underlies the rational actions and choices of SME managers (Beaver, 2004). Our results indicate a strategic awareness of Australian SME managers with more than nine out ten respondents indicating that they view a strategic plan as either vitally important or important to the ongoing success of their business. Ninety-four percent of respondents indicated that they view a strategic plan as either vitally important or important to the ongoing success of their business. This

strategic awareness is commensurate with the deliberate approach to strategy making.

What could explain the overwhelming use of a deliberate approach in Australian SMEs? We suggest there are specific triggers for Australian SMEs to favour a deliberate planning approach. The first concerns the nature of teaching programs focusing on strategy. Most of these programs are based upon formal business planning (Harris et al., 2000). Mission and vision statements, and the deliberate approach to strategic planning processes are prominently highlighted in marketing texts as forming the base for formulating marketing strategy (Czinkota & Ronkainen, 2007; Hooley, Piercy, & Nicoulaud, 2008; Kotler, 2003; Kotler, Armstrong, Brown, & Adam, 1998; Summers, Gardiner, Lamb, Hair, & McDaniel, 2005). Furthermore, the approach followed by most management texts, is based upon the principles of developing or reviewing mission and vision statements; analysing (usually through a SWOT analysis) the external and internal environments; and then formulating, implementing and monitoring appropriate strategies. Integral to this process is the principle of goal setting. For example, one particular text which is widely adopted in Business strategy courses by Australian and international management schools, is David's (2007) text. The text is estimated to be read by 90,000 students annually, and has been translated into multiple languages (Young, 2009). This particular text makes considerable use of the approach outlined above – the strategic management process as 'consisting of three stages: strategy formulation, strategy implementation, and strategy evaluation' (David, 2007). Young (2009) argues that the 'normative' approach taken by David (2007) and other strategic management texts (for example Samson and Daft 2005) would be widely adopted, and very influential. These texts highlight the importance of defining a mission and vision statement, performing an internal and external audit, conducting SWOT and other analyses, establishing long-term goals, and evaluating, implementing and monitoring the resultant strategies. These texts also provide a highly detailed overview of a variety of tools available

for strategic analysis, including SWOT and TOWS matrices, Internal Factor analysis (IFE) and External Factor Analysis (EFE) matrices, the Boston Consulting Group (BCG) matrix and others. Porter's five forces competitive model is discussed as is the resource-based model, and the comprehensive nature of the text is clearly a factor in its wide use as an academic teaching tool (Young, 2009).

Further to this argument, there is another source of information and guidance about strategic planning that could certainly be used by (especially) SMEs. These are the 'popular' books about business (and marketing) strategy, typically written by high profile business people who encourage other to 'do as they have done'.

A second factor responsible for the trend towards deliberate strategy making approaches in Australian SMEs, could be the fact that a deliberate approach is more suitable to mature business contexts (Mintzberg & Waters, 1985). In our sample, nine out of ten SMEs could be said to generally be 'surviving' businesses with more than 90% of businesses having been established for more than 5 years. In the words of Lumpkin and Dess (1995, p. 1398): 'as organisations grow and mature and face more complex and multifaceted environments, more complex decision-making processes are required'. Furthermore, Van Gelderen et al. (2000, p. 165) argues that 'success may lead to specific strategies involving more sophisticated management and control techniques because of expanding activities and hiring new employees.' In view of these arguments one could argue that formal strategy making processes in line with a deliberate approach, emerge in SMEs as a result of firm resilience and not as critical determinants of that performance.

What about the impact of firm size on strategy approaches utilised? Traditionally, management literature assumes that large firms apply a rational and deliberate strategic planning process as a means to achieve the goal of profit maximisation (Legge, 2005). Methods like SWOT analysis (an analysis of an enterprise's strengths, weaknesses, opportunities and threats) are used to analyse markets and organisations, resulting in formal

written strategies. However, earlier in the paper we have argued that small and large firms may differ in their strategic planning, (implicitly or explicitly) applied to reach their respective organisational goals. The assumption of deliberate strategy formulation implies that employers will establish what information they require, obtain this information, correctly interpret it, and use it to arrive at an optimal strategy given the available information. However, Mintzberg and Waters (1985) and Legge (2005) argue that strategy formulation may be more of an emergent process than a deliberate one (in smaller organisations). Small firms have less experience and a more limited capacity for the acquisition of knowledge, which leads Nooteboom (1993) to conclude that small firms are more bounded in their rationality than large firms are.

De Kok, Uhlaner, and Thurik (2002) argue that this lack of experience and limited capacity is mostly due to a lack in human resources and management time. Day-to-day worries are often the result of the SME manager's participation in the production process. Formal management education and gaining management skills by cooperating with other managing employees are often limited and consequently the ability to use classical management tools is lacking (Lee, 1995). According to Nooteboom (1993) small firms have less experience and routine in employee management activities owing to relatively few employees and not having to make Human Resources (HR) decisions on a regular basis.

The findings of our study, therefore clearly contradicts the conclusions of some previous studies – that large firms and SMEs' strategic planning differ significantly. Harris et al. (2000) found that 'strategy making in small firms is mainly emergent, adaptive and reliant on personal relationships'. Furthermore, Verreyne (2006) questions the existence of a rational mode of strategy making in small firms. Mazzarol and Reboud (2006, p. 263) similarly cite Robinson and Pearce (1984) who have the view that small firms' strategic planning is 'frequently chaotic and idiosyncratic in nature'. Mintzberg and Waters (1985), also cited in Mazzarol and Reboud (2006, p. 263) view small firms as having an 'emergent' approach to

strategy formulation, rather than one which is 'planned and systematic'. Kotey and Meredith (1997, p. 40) state that owner/managers of small firms have a greater influence (than those of larger firms) on business strategy owing to their ability to 'override obstacles'. Furthermore, it is true that large organisations are more likely to have the resources, technical knowledge and skills to implement formal strategic planning but the results presented here indicate that even though SMEs may not have these resources, they do have a deliberate planning mindset.

Contrary to these studies, overall our results show that nine out of ten SMEs reported they view a strategic plan as either vitally important or important to the ongoing success of their business.

However, when exploring the impact of firm size further, our results indicate some large effects across the two firm sizes. Medium-size firms were significantly more likely than their smaller counterparts, to: engage in strategic/business planning; establish a business/operational plan; and ensure resulting plans are either all written or some are written. Yet, this could either be a size effect or and a complexity effect. The same size effect was found in relation to the engagement in the formalisation of a vision statement and statement of values, even though the opposite was true regarding the formalisation of a mission statement. Medium-size firms: include the areas of human resources, marketing and technology to a greater extent than small firms; include almost all of the participants in the strategic planning process measured in this study to a significantly greater extent than small enterprises; employ the majority of planning tools to a significantly greater extent than small organisations; review their plans significantly more often than small enterprises; identify goals and objectives as part of the strategic/business plan to a greater degree than small enterprises. However, regardless the fact that medium firms utilise these deliberate planning approaches to a greater extent than their smaller counterparts, the overall profile of strategy making in small enterprises is of a deliberate nature.

These results correspond with Stonehouse and Pemberton's (2002) results in UK, who found a

significant correlation between organisational size and the structured nature of planning. Larger firms employed a more structured approach to planning and the utilisation of tools.

#### CONCLUSIONS AND PRACTICAL IMPLICATIONS

In view of the discussion above, it is clear that there is a definite trend in Australian SMEs to employ a deliberate approach to strategy making. This trend is inconsistent with the research stream pointing to an absence of formal planning in SMEs (Berry, 1998; Marlow, 2000) and questioning the use formal planning approaches in SMEs the value of more sophisticated strategic planning to smaller firms and the dynamic environment typically experienced by smaller firms (Barnes, 2002).

However the strategy making process in respondent organisations is not 'only' deliberate. The results indicate shades of grey, since SMEs did show the propensity to shy away from the other less well known sophisticated tools/techniques measured in this study. Furthermore, regarding the inclusion of various areas of analysis in the overall strategy, the results indicate that even though the firm's financial circumstances was the main area of analysis in devising SMEs' strategies as per the deliberate approach (Bracker et al., 1988), SMEs were less inclined to include a range of areas of analysis. A moderate level of inclusion was found in relation to twelve of the seventeen analysis areas measured with a low level of inclusion in only four areas. These results lend some support to Boyd and Reuning-Elliott's (1998, p. 190) argument that the 'either (deliberate) – or (emergent)' debate is a 'false dichotomy', and that strategy making should rather be considered on a single continuum. It is also supportive of Gibcus and Kemp's (2003) view that there is an expectation to find tendencies in the directions of deliberate and emergent strategies rather than perfect forms of either.

Boyd and Reuning-Elliott (1998) suggest that normative planners would scan proactively, but incremental planners would do so only when needed. Therefore, despite a sizeable majority of respondents in our study indicating that they highly value strategic planning in the ongoing

success of their enterprises and they articulate this through vision and mission statements, there is limited evidence of practical strategic planning in the sense that they draw on a limited range of practical strategic planning tools of analysis. Furthermore, it could be argued that the strong emphasis on financial analysis reflects a short-term rather than long-term strategy (Stonehouse & Pemberton, 2002).

Therefore despite the fact that Australian SMEs tend to have a deliberate strategy-mindset and also engage in deliberate strategy making practices, regardless of the reasons, SMEs are not fully taking advantage of the range of strategy making tools available.

#### PRACTICAL IMPLICATIONS

In view of the findings above, researchers and practitioners may find it valuable to develop tools that will naturally suit SMEs, so that these tools can be of more value. Academics and tertiary institutions will be well advised to develop strategic management courses which also specifically focus on more emergent approaches designed for smaller firms including specially developed techniques and tools that are less time-consuming and expensive to use and more suited to smaller firms. This would enable SMEs to expand the range of strategy making tools they employ.

Despite the fact that SMEs in this survey utilise a deliberate approach to strategy making to a greater extent than an emergent approach they should not lose sight of how they could optimise the advantages that stem from their smaller size (in comparison to their larger counterparts).

Even though this study found that Australian SMEs tend to adopt a deliberate approach to strategy making, the value of the emergent strategy making approach should not be discounted.

Finally, when considering the strategy making profile of SMEs in our study, the question could be asked whether too much planning can be harmful in SMEs and whether it could constrain emergent strategy making. It could be argued that within a dynamic changing business environment, too much deliberate planning could pose a disadvantage if the process of strategy making becomes too rigid.

### LIMITATIONS AND FUTURE RESEARCH

This study has limitations, but they provide new ideas for further research. One deficiency is the decision to direct our questionnaires only to an informant (CEO or MD) from each SME to rate their strategic practices for their organisation (Gerhart, Wright, McMahan, & Snell, 2000). Nevertheless, including the chief executive level as the self-reporting respondent is a well-recognised approach since CEO's and managing directors in SMEs are seen as having a wide breadth of knowledge of strategic activities and the operating environment. Furthermore in many research contexts this approach is central to the collection of data (Avolio, Yammarino, & Bass, 1991; Frost, Birkinshaw, & Ensign, 2002).

Second, the survey was conducted at a single point in time. This risks potential distortion owing to respondents' viewing their world only in the light of whatever seemed important to them at that specific time. This could be offset by conducting longitudinal studies (Barnes, 2002). Our future intentions are to develop this survey in a longitudinal data-set.

Third, this study has been conducted in the Australian national context and researchers and practitioners have to consider the cultural context when they try and transfer strategic practices and approaches to other cultural contexts. The transferability of the findings of the current study therefore may not be applicable in other cultural contexts. However, since there has been such limited information of strategic approaches in other countries within the SME context, the current study represents an important step in introducing this understanding in SMEs.

Forth, while this study has usefully presented a profile of strategic approaches in Australian SMEs, because of its quantitative nature we necessarily trade-off its advantages in representativeness with rich descriptions typical of qualitative or mixed methods, perhaps of ideal-type case studies. Conducting follow-up case-study work with a group of individual SMEs will greatly enhance the interpretation of our findings. This qualitative type of analysis will enable a much broader analysis of the role of deliberate and emergent actions and decisions by SME managers, together with a

better understanding of the role of organisational culture, politics and powerful individuals in the strategy making process. Verreyne (2005) found that pure rationality may not occur at all in small firms and that studies that investigate the use of strategy making practices in small firms would be better off using a typology or taxonomy of strategy making processes to explore it. Our future intentions are to now begin the modelling process to developed clusters of strategic practices and link these to critical firm performance indicators.

In terms of future research, as this was a broad ranging study, including a large number of practices, some issues were inevitably studied in a fairly superficial manner because closed ended responses were required of respondents. Each of the issues investigated in this study would benefit from more in-depth studies in their own right. These include for example:

- the effectiveness of a written strategic plans and objectives;
- the role and impact of culture on the strategy formation approaches in SMEs;
- the characteristics (background and experience etc.) of powerful individual managers who dominate the strategy formation in the individual SME;
- the source of power and the influence of individuals and group involved in strategy formulation, and the extent to which power and influence are exercised by these stakeholders;
- the impact of cognitive processes used by the different managers who are involved in strategy making, upon strategy making (including their preferred learning and information processing styles);
- the perceptions that SME managers hold about the powerful factors in the external environment that limit their decision and action taking within SMEs;
- the impact of business and management education of SME managers upon strategy formation and approaches;
- reasons behind the use of strategic tools and whether the limited current use of tools is owing to a lack of awareness of relevant tools or a perception that they are inappropriate to SMEs;

- the impact of contextual issues such as strategy and ownership on the strategy making of SMEs.
- the link between strategic approaches and firm performance in Australian SMEs.

The latter aspect links to practitioners' desire to link various facets of SME strategy formation and approaches on the one hand, and performance on the other. Although this has been a recent focus in the strategy literature, there is a dearth of research on this aspect within the SME context. This perhaps represents the greatest challenge for those that seek to more fully understand strategy formation and approaches in SMEs.

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