Strategic planning in SMEs – some empirical findings

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Keywords
Small- to medium-sized enterprises, Planning

Abstract
Strategic frameworks and tools of analysis have been the subject of much academic debate over the last 20 years. This paper reviews the main approaches to strategic management and, by presenting the results of a survey of 159 small and medium sized enterprises selected from both the service and manufacturing sectors, demonstrates a divide between the theoretical concepts and the practical realities of strategic planning. While there are strong indications of business planning among the organisations surveyed, there is less evidence of strategic thinking except among larger businesses. Even in this latter group there are only a few instances where the recognised tools of strategic management appear to play a role in planning, the exception being internal financial analysis, which is widely undertaken.

Management Decision
40/9 [2002] 853–861

[ISSN 0025-1747]
[DOI 10.1108/00251740210441072]

Introduction

The maturity of an academic discipline is often judged by the extent to which its theories and techniques are employed in everyday practice. For example, the theoretical principles governing engineering are employed daily in the construction of artefacts as diverse as bridges, buildings, motor vehicles, ships and aircraft; in psychology, treatments are derived from theoretical developments based upon experimental research.

In comparison, the field of strategic management is still in the early stages of its development. Its adolescence, relative to other more established areas of business and management theory, is evidenced by inconsistent and conflicting viewpoints. It is possible to benchmark the maturity of strategic management by exploring the extent to which its theories, frameworks and tools are employed by businesses in their strategic thinking and planning.

Practical research in this area is in relatively short supply, with the most recent survey concentrating on strategic planning within larger organisations (Glaister and Falshaw, 1999). In the context of small and medium sized enterprises (SMEs), however, Peel and Bridge (1998) report a strong positive relationship between the success of SMEs and the degree of long-term planning undertaken.

In this paper, attention is focused on strategic planning in the SMEs that make up much of the UK's manufacturing and service sector base. The research, which is based upon responses from over 150 SMEs, has two primary objectives:

1. To explore the extent to which the tools of strategic management are employed by businesses within the manufacturing and service sectors.
2. To assess the degree of practical acceptance of the subject of strategic management by SMEs.

In addition, this permits further discussion of whether such organisations do indeed think and act strategically.

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Strategic terminology

Several terms are used ambiguously and interchangeably in the literature relating to strategy, resulting in a failure to distinguish between the concepts of strategic management, strategic thinking, strategic learning and strategic planning. Such distinctions are essential to appreciate the issues discussed, and the research data presented, in this paper.

Strategic management can be conceptualised as a set of theories and frameworks, supported by tools and techniques, designed to assist managers of organisations in thinking, planning and acting strategically. In simple terms, it concerns the long-term success of the whole organisation and is a vehicle through which managers can plan for the future.

Strategic thinking, on the other hand, relates to a vision of the future developed by an organisation's leaders, requiring managers to think beyond day-to-day operations in order to develop a long-term "strategic intent" for the business (Prahalad and Hamel, 1990). The absence of such intent or aspiration typically results in the stagnation of a business.

Equally, strategic learning is concerned with the processes by which organisations learn about themselves and their environment, thereby devising demanding, but achievable, long-term goals, together with the appropriate strategies intended to realise them. Strategic learning is vital to the development of the strategic knowledge upon which competitive advantage is based (Nonaka, 1991), and involves the gathering and analysis of information to support the development of vision and strategy.

Finally, strategic planning centres on the setting of long-term organisational objectives, and the development and implementation of plans designed to achieve them. Rather unfortunately, strategic planning is often associated with a highly prescriptive approach to strategic management (Mintzberg, 1990). While the uncertainty of the modern business environment means that detailed and prescriptive long-term planning is of little value, some form of broad long-term planning, related to strategic thinking and vision, is necessary if strategic intent is to be translated into action. The long-term orientation, level, detail and degree of flexibility involved in the process are clearly essential elements here. Thus, for the purposes of this paper, strategic planning is defined as, "the devising and formulation of organisational level plans which set the broad and flexible objectives, strategies and policies of a business, driving the organisation towards its vision of the future". Naturally, such planning involves strategic thinking based upon strategic learning, resulting in a continuing and continuously emergent process.

A further clarification of language is also needed at this juncture. In contrast to strategic planning, business planning is concerned with the short-term analysis of a business, the attainment of short-term goals and functional level planning. Although it can be embedded within strategic planning through short-term adjustments, it should not be mistaken for strategic planning, a common confusion of theorists and managers alike. Such a distinction is critical in the context of the research presented here, not least as regards the inferences made and the subsequent implications in the wider body of strategic management research.

The strategy debate

Any confusion over the terminology used to describe strategy management is further compounded by the differing approaches devised to enhance understanding of competitive advantage. Four schools of thought can be identified (McKiernan, 1997):

1 prescriptive (also called deliberate or planned);
2 emergent (or learning);
3 competitive positioning;
4 core competence, resource or knowledge-based.

These approaches are often presented as contradictory and conceptually opposed. While each emphasises certain distinct characteristics, there is commonality of themes and linkages are clearly apparent. Arguably, no single school represents a complete or definitive explanation of strategic management within organisations, since it is, by its very nature, an eclectic academic discipline. Each school merely offers a different viewpoint or perspective through which managers can gain understanding of the strategic situation of their organisations.

The prescriptive approach emphasises long-term planning designed to achieve a "fit" between an organisation's strategy and its environment, with strategic management viewed as a highly systematised and deterministic process (Ansoff, 1965; Andrews, 1987). While such heavily structured planning is clearly inappropriate in times of rapid and turbulent change, the setting of longer-term objectives is necessary for the survival and progression of an organisation.

Similarly, an emergent or learning approach (Mintzberg *et al.*, 1995), which is better suited to dynamic and hyper-competitive environments, does not imply a complete absence of strategic planning. Even Mintzberg, a critic of the prescriptive school, suggests that strategy is a combination of deliberate plans and emergent adjustments over time.

The dominant paradigm of the 1980s was that of competitive positioning, based upon the work of Porter (1980), and centring on the premise that a business positions itself within its competitive environment with the aim of generating superior performance. This approach has spawned the five forces, generic strategy and value chain frameworks, often presented as the "tools" of the strategic management trade. The approach is also referred to as "outside-in" because of its focus on the environment.

In the 1990s, the resource or core competence based school of strategic management gained momentum, suggesting that competitive advantage arises from an organisation's internally developed core competences or distinctive capabilities (Prahalad and Hamel, 1990; Heene and Sanchez, 1997). Other research supports the view that choice of industry is not a major factor in determining business profitability, with the core competence of the organisation being of greater importance (Rumelt, 1991). In essence, this "inside-out" approach assumes that competitive advantage depends upon the behaviour of the organisation, rather than its competitive environment.

While the prescriptive and competitive positioning schools have clear associations, the same can be said for the emergent/learning and core competence paradigms. Prahalad and Hamel (1990) define core competences as, "... the collective learning of the organisation ...". More recently, the emphasis on learning has also rekindled interest in knowledge as an organisational competence for gaining competitive advantage (Quinn, 1992; Grant, 1997; Demarest, 1997).

Although this debate is of considerable academic interest, several authors have suggested that the various approaches should be viewed as complementary, with organisations needing to develop both internal and external focus in order to develop knowledge-based core competences and market driven strategies sensitive to customer needs (Prahalad and Hamel, 1990; Mintzberg *et al.*, 1995; Greenley and Oktemgil, 1996).

Practical realities

The theories and frameworks of strategic planning are well documented in academic circles, but the practical evidence of their application is in relatively short supply. One of the most recent surveys, conducted by Glaister and Falshaw (1999), examines the views of businesses to strategic planning and provides additional empirical evidence of the tools and techniques used in this area. Their work, based on 113 large companies split approximately equally between service sector and manufacturing, highlights a number of interesting observations, not least that the so-called commitment to strategic planning seems at variance with the actual tools used in the process. This is clearly linked to the distinction between prescriptive and emergent planning, but is perhaps more attributable to the authors' definitions of strategic planning which may in fact be more related to business planning. Apparent contradictions in responses, most notably when examining the tools of strategic analysis in relation to internal and external activity, also highlight the confusion that exists amongst business practitioners.

To examine these issues in more detail and incorporate data relating to SMEs, the following sections detail new research conducted into the practical realities of strategic planning. A distinction between service and manufacturing sectors is primarily made to facilitate comparisons with the research conducted by Glaister and Falshaw (1999), although differences in performance between these sectors is sufficiently well documented to merit separate analysis, with the service sector now accounting for two-thirds of all UK businesses (Office of National Statistics, 2000). More specifically, this research is designed to shed light upon the extent to which organisations, specifically SMEs, undertake strategic planning, employ the theories, frameworks and tools of strategic management, thereby identifying which of the theoretical approaches best explains strategic practice.

Research approach

A postal questionnaire was used to capture the information required in the survey. The target group was restricted to north-east England using a database compiled at the Centre for Business Excellence, Newcastle Business School. In total, 746 companies drawn from the service and manufacturing sectors were targeted, with 448 companies in the former and 298 companies in the latter category, mirroring the proportions within these two sectors in the UK as a whole. A further breakdown shows that of the service sector companies, 60 per cent are classified as small (50 or less employees), 22 per cent medium (51-200 employees) and 18 per cent large organisations (201+ employees). For manufacturing, the corresponding figures are 39 per cent small, 37 per cent medium and 24 per cent large organisations respectively. A named individual of senior management or executive status was requested to complete and return the questionnaire in a pre-paid envelope. The survey took place in April 2001. A follow-up letter was also distributed in an attempt to improve response rates.

Five areas are included in the questionnaire, with questions covering the:
1 company's general philosophy as regards strategic planning;
2 time horizon over which such planning takes place;
3 importance attached to strategic planning;
4 issues addressed in the strategic plan;
5 frequency of use of the various tools and techniques available in strategic analysis.

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The themes explored have some commonality with those presented by Glaister and Falshaw (1999), but with a greater distinction between strategic and business planning. In addition, this research focuses more specifically on SMEs, rather than the larger organisations which they surveyed.

After coding the questionnaire responses, analysis was carried out using SPSS. In the ensuing tables, percentages are used throughout, with an indication of the overall total upon which these figures were based. Additional statistical tests are also performed when looking at potential associations and differences between the service and manufacturing sectors for example, with *p*-values quoted to three decimal places and the significance based on the usual convention of the 5 per cent (*) and 1 per cent (**) levels. In Tables I-III, comparison of proportions within the two sectors is based on a large sample parametric difference of proportions test. In Table IV differences in scores between the two sectors are assessed using the non-parametric Mann-Whitney test for two independent samples. In the remaining analysis, including Table V, Spearman's rank correlation coefficient is used to explore potential associations between the pairs of variables under consideration.

Research findings

In total, 159 usable responses were received, yielding a 21 per cent response rate. Of these, 100 (22 percent) were from the service sector and 59 (20 percent) from the manufacturing sectors.

As Table I illustrates, in terms of strategic planning, the majority of organisations adopt a highly structured approach to planning, although there is evidence to suggest that amendments, either occasionally or frequently, occur. Only 8 per cent of organisations indicated that no formal planning takes place. The figures suggest that while planning is common, amendments are often made to such plans by many of the organisations surveyed. There are some differences when focusing on the two sectors, with a smaller proportion of manufacturing companies having highly structured plans than the service sector, but higher proportions with general policies that are frequently amended. However, further analysis shows that in none of the seven categories are the differences between the two sectors statistically significant. At this stage, it is not possible to identify the extent to which this planning is long term (strategic) or short term (business).

In terms of planning, the time horizon gives some indication of whether this is short, medium or longer term. For both sectors, there is close agreement, with a median value of three years. Indeed, comparing proportions within the service and manufacturing sectors for each of the six planning horizon categories given in Table II shows that there are no statistically significant differences. Although basically a positively skewed profile, a fifth of companies do plan over a five-year time horizon. Planning over a longer period is seldom observed. More specifically, over 70

Table I
Approaches to planning

Type of planning	Service (n = 100)	Manufacturing (n = 59)	All (n = 159)
Highly structured with detailed plans and clear targets that are rarely amended	2	3	3
Highly structured with detailed plans and clear targets amended only when circumstances dictate	37	29	34
Highly structured with detailed plans and clear targets frequently amended	27	19	24
General policies exist without detailed plans but they are rarely amended	6	3	5
General policies exist without detailed plans but they are amended only when circumstances dictate	16	17	16
General policies exist without detailed plans but they are frequently amended	5	19	10
No formal planning takes place	7	10	8

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per cent of the organisations have a planning horizon of three years or less, with over one-fifth having only a one-year planning horizon. This raises the question as to whether such planning can be classed as strategic or, alternatively, whether an emergent approach to strategy is more in evidence, particularly when viewed in conjunction with the earlier observations arising from Table I.

In response to the value attached to strategic planning, its importance is clearly recognised, with over 90 per cent of respondents stating that it is extremely or fairly important, a majority being in the former category. However, when examining the issues addressed in such plans, some interesting findings arise. Table III gives a breakdown, by sector, of the various issues addressed in the companies' strategic plans.

Referring to this table, the vast majority of organisations, particularly in the service sector, appear to plan strategically in the sense of having clearly articulated vision and mission statements supported by business level objectives, although for manufacturing a mission/vision statement is less likely to be included. In this latter case, a statistically significant difference is recorded when compared with the service sector ($p = 0.000^{**}$). A statistical difference is also noted between these two sectors in relation to staff appraisal ($p = 0.039^{*}$), the service sector being more likely to include this in their plans

Organisations also set strategic targets in terms of sales, profit and costs, the manufacturing sector placing greater emphasis on these aspects than service-oriented companies. In the case of profit and sales targets, a statistical difference in proportions within the service and manufacturing sectors is noted (both $p = 0.000^{**}$). Arguably, such targets may, however, be regarded as business, rather than strategic targets, a distinction made in the definitions presented in earlier sections of this paper. Conversely, only a quarter of respondents have established market share targets normally associated with longer-term strategic planning.

Moving to the tools of strategic analysis, respondents were asked to indicate the frequency with which they utilised the various tools of analysis using a scoring system of 1 = not used to 5 = always. Table IV shows the median responses of the two sectors for each of the techniques given. (The skewed profile of the distributions means that the arithmetic mean is not a reliable measure in this context.)

The most striking feature of these results relates to how few organisations make use of what are regarded as the traditional tools of strategic management. Tools such as STEP, the five forces framework, value chain analysis and portfolio analyses are seldom used by the responding organisations, and the same is true for strategic planning software. This is apparent in both the service and manufacturing sectors. Of the techniques given below, financial analysis within the organisation is clearly the most used, with the use of SWOT, core competence, organisational culture, benchmarking and human resource analysis surfacing to a lesser degree. When examining the two sectors in more detail, only SWOT

Table II
Time horizon for planning

Years	Service (n = 92)	Manufacturing (n = 50)	All (n = 142)
1	20	26	22
2	10	14	11
3	41	36	39
4	3	2	3
5	23	18	21
6-10	2	4	3
Over 10	1	0	1

Table III
Content of strategic plans

Issue	Service (n = 92)	Manufacturing (n = 51)	All (n = 143)
Mission/vision statement	84	50	71
Business level objectives	88	87	87
Departmental/divisional objectives	57	48	53
Production/volume/output targets	51	49	50
Profit targets	52	85	64
Sales targets	47	81	59
Cost targets	57	65	59
Market share targets	21	26	22
Staff appraisal	58	40	58
Staff development	66	51	61
Staff training	65	57	62

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analysis shows a significant difference between the two (p = 0.005**), with more frequent use by service sector companies. The high usage of financial analysis techniques within the organisations is consistent with an emphasis on short-term business planning rather than on strategic management of the business.

Additional analysis has also been performed in relation to the tools identified in Table IV and:

- the time horizon for planning,
- the size of company.

When examining the former, little common ground exists between the service and manufacturing sectors, with the exception of strategic analysis, where critical factor analysis shows a significant association for the service (p = 0.012*) and manufacturing (p = 0.002**) sectors, a longer time horizon being associated with more frequent use of this tool. In the case of manufacturing, more frequent use of the five forces framework (p = 0.044*), what-if spreadsheet analysis (p = 0.011*) and financial analysis of competitors (p = 0.034*) appears positively associated with a longer time horizon.

The use of the size of the company for additional analysis, while interesting in itself, also permits more meaningful comparisons with Glaister and Falshaw's research. Companies were classified by size, dependent on the number of employees, as small (50 or less), medium (51-200) and large (201 or more). When examining this variable in conjunction with the approaches to planning given in Table I, in both sectors, size of company is related to their approach to strategy, with larger companies tending towards highly structured plans, with smaller companies adopting a general policy (p-values of 0.001* (n = 93) and 0.012* (n = 57) are recorded for service and manufacturing respectively). Furthermore, in the case of the service sector, longer planning horizons are also associated with larger companies (p = 0.030*, n = 86).

In terms of strategic plan content, in both the service and manufacturing sectors, presence of a mission statement is associated with larger companies (p = 0.002**, n = 86; p = 0.027*, n = 49).

Finally, there is little common ground between the two sectors as regards the use of strategic tools and size of company. Significant associations for the service and manufacturing sectors are highlighted in Table V and indicate that the listed tools are in more widespread use amongst larger companies.

Table IV
Use of strategic techniques/tools

Technique/tool	Service (n = 93)	Manufacturing (n = 57)
SWOT analysis	3	2
Critical factor analysis	1	1
PEST or STEP analysis	1	1
Porter's five-forces analysis	1	1
Core capabilities/competence analysis	2	2
Financial analysis of competitors	2	2
Financial analysis of own business	4	4
Value chain analysis	1	1
Organisational culture analysis	1.5	1
Portfolio matrices(e.g. BCG)	1	1
Strategic planning software	1	1
Spreadsheet "what if" analysis	1	1
Benchmarking tools	2	2
Human resources analysis	2	2

Table V
Significant associations between size of organisation and strategic tools

Technique/tool	Service (n = 93)	Manufacturing (n = 57)
SWOT analysis		
Critical factor analysis		
PEST or STEP analysis	0.017*	
Porter's five-forces analysis		0.029*
Core capabilities/competence analysis		0.006**
Financial analysis of competitors		0.003**
Financial analysis of own business		
Value chain analysis		0.030*
Organisational culture analysis		0.022*
Portfolio matrices(e.g. BCG)		0.001**
Strategic planning software		
Spreadsheet "what if" analysis		0.018*
Benchmarking tools	0.020*	
Human resources analysis		

Note: *Significant at the 5 percent level; **significant at the 1 percent level

Discussion

At this stage, it is useful to summarise the main findings of the survey:

- A total of 92 per cent of organisations indicated that they undertake strategic planning, either highly structured or of a general nature.
- The planning, however, is often undertaken flexibly in that plans are amended when circumstances dictate.
- The majority of organisations (72 percent) have a planning horizon of only one to three years with approximately 20 per cent planning for only one year ahead.
- Two-thirds of the organisations surveyed have vision and mission statements,

indicative of a degree of strategic thinking;
- Most organisations concentrate on short-term sales, cost and profit targets rather than longer-term goals.
- There is little evidence of usage of the "tools" of strategic analysis with the most common tool relating to internal financial analysis.
- Larger companies make greater use of long-term plans and tools of strategic analysis; smaller companies generally have a shorter-term focus, making use of policies rather than plans.

These findings are contradictory in certain respects. Despite a sizeable majority of respondents indicating that their organisations regard strategic planning as extremely important, and that they articulate this through vision and mission statements, there is limited evidence of practical strategic planning in the sense of setting long-term business objectives and use of the tools of strategic analysis.

There are alternative explanations of these contradictions. They can perhaps be explained in terms of a difference in perception between managers and academics on the nature of strategic planning. For example, it appears that many of the surveyed organisations refer to strategic planning, but in fact are more concerned with short-term objectives and, what would be regarded by academics as, business planning. Evidence for this viewpoint comes from a variety of sources, not least the strong emphasis on financial analysis and targets which relate more to short-term orientation rather than a longer-term strategy.

Alternatively, the low usage of strategic techniques, together with the focus on short-term objectives, may be indicative of a lack of awareness of the need for a longer-term strategy and a lack of belief in the value of strategic frameworks in the planning process. On the other hand, this situation is consistent with the view that the approach to strategy adopted by organisations is emergent or learning, rather than planning oriented.

It is difficult to determine, on the basis of the data gathered, which explanation is more convincing and further research is needed to make a fuller assessment. Nevertheless, there is evidence of a short-term orientation, indicative of a lack of strategic intent by the SMEs, for the companies surveyed in this research.

The results of this survey also yield similarities and differences in comparison with the results reported by Glaister and Falshaw (1999). Their survey targeted UK listed companies, most being large organisations with a mean number of employees of 7,270. In contrast, the firms in this survey had a mean of around 150 employees.

It is interesting to compare aspects of the findings of the two studies since this highlights many of the differences in approach to strategic management between large and small organisations. Glaister and Falshaw's survey appeared to show greater evidence of strategic planning and of the use of strategic planning tools among the organisations in their survey than those in this study. These findings are not, however, necessarily contradictory. A statistical association between the size of company and the presence of highly structured planning is observed in this research study, with larger companies more likely to have the latter. In effect, larger companies would appear to have greater strategic orientation than small and medium-sized organisations.

Further similarities emerge when examining tools of analysis, with both surveys reporting low usage of the STEP and five forces frameworks, moderate use of the value chain, competence analysis, portfolio matrices, cultural analysis and high usage of financial analysis.

Where differences do emerge, these centre on spreadsheet/what-if and critical success factor analysis, with the larger companies in Glaister and Falshaw's survey indicating high usage, a result not apparent in this research. It should be noted, however, that for manufacturing, spreadsheet/what-if analysis is more likely to be used in larger companies than for smaller ones.

Nevertheless, the conclusion that firms are placing a strong emphasis on strategic planning is clearly debatable. Glaister and Falshaw state that their survey respondents regarded strategic planning as important, a view shared by respondents of this survey. This, however, is not borne out by the methods employed in assessing the strategic approach to follow. The tools and techniques most commonly cited are invariably associated with business rather than strategic planning.

Combining the results of Glaister and Falshaw and the findings of this new research, suggests that only a limited set of strategic tools are deployed by small, medium or large organisations, although there is evidence to suggest that larger organisations are more likely to take a more structured approach and utilise the tools available to a larger degree. Ultimately, however, managers are either unaware of the existence of strategic planning frameworks and tools or do not regard them as essential to their planning processes.

When considering the sector, service or manufacturing, certain differences do emerge, the former placing more emphasis on mission statements than the latter, with the converse true in relation to profit and sales targets. This is perhaps not unexpected given the nature of the businesses within the two sectors. In terms of the tools of strategic analysis, with the exception of SWOT analysis, no differences emerge between the two. However, when examining these tools in the context of size of company, a greater frequency of use is linked with larger organisations in the manufacturing sector. Larger organisations within the service sector are also more likely to plan over a longer time horizon. This result is not apparent in the manufacturing sector and is perhaps indicative of shortening product development and life cycles (Rajan *et al.*, 1998).

Conclusions

The findings of this research, combined with other recent work in the field, suggest that the theories and frameworks of strategic planning, as well as the tools of analysis, largely remain the domain of academics and observers. In other words, when measured against the yardstick of the extent to which its theories and tools are employed by business organisations, strategic management has still not yet reached the maturity of many other academic disciplines. This is certainly true in the context of SMEs and, to a lesser extent, larger organisations. This is not to say that the frameworks are inappropriate, but despite the plethora of writing on strategic issues, managers either appear unconvinced or unaware of the practical benefits of using frameworks for strategic planning.

This research identifies, among the firms surveyed, an emphasis on financial analysis, profit targets, and short-term planning horizons, appearing to confirm a predisposition towards business planning rather than strategic thinking and management. The focus on short-term business planning may indeed be an important factor in the high failure rates commonly encountered among SMEs in the United Kingdom and for their poor performance in comparison to German SMEs, for example (HMSO, 1995). Indeed, authors such as Peel and Bridge (1998) have highlighted a strong positive association between the success of SMEs and the degree of long-term planning undertaken.

Furthermore, the large number of organisations citing vision/mission statements and business objectives as part of their strategic plans might be viewed as indicative of an emergent or learning approach to strategy, allowing the flexibility to respond to rapidly changing conditions. It could also be argued, however, that a greater use of strategic planning tools for the analysis of the business environment, as well as for internal analysis, would facilitate improved organisational learning, enhance strategic thinking and help to reduce failure rates among SMEs. A lack of awareness of the relevant tools, rather than a perception that they are inappropriate, may be a fundamental reason for their under-utilisation by managers, although it is possible that they have been considered and their use rejected. Clearly, without further research to examine the reasons for these anomalies, reference to frameworks and tools of strategic planning is perhaps purely academic!

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Application questions

1 To what extent does your organisation plan strategically?
2 Is your organisation, in effect, more concerned with business, as opposed to strategic planning?
3 When planning of any nature takes place, does your organisation make use of established planning tools or techniques? If not, is this based on lack of knowledge of such tools or a perception that such tools have no practical benefit within your company?