

## Chapter I: Introductory Overview

The role of strategic planning to improve organisational performance is well documented in the strategic management literature (Song & Song, 2011; David, 2005; Karel *et al.*, 2013; Dobbs & Dobbs, 2015; McClean, 2015). Strategic planning is a function of strategic management and strategic management. David (2005) contends that it is the process and approach of specifying an organisation's objectives, developing policies and plans to achieve and attain these objectives, and allocating resources to implement the policies and plans. Organisational performance is described as an organisation's ability to acquire and utilise its scarce resources and valuables as expeditiously as possible in pursuit of its operational goals (Griffin, 2006). It is believed that, through proper strategic planning, organisations would achieve better performance (Signhvi, 2000; Miller & Cardinal, 1994; Wang, Walker & Redmond, 2007). Although small and medium size enterprises typically employ a major share of an economy's total employees, formal plans and cost controls are often only provided on a regular basis and planning instruments are usually only used by a small number of individuals and developed rather intuitively (Brinkmann, 2002). These shortcomings point towards the importance of critically examining the value of strategic planning for SME's in detail. Mutandwa *et al.* (2015) have noted that the increasing population and rising unemployment has resulted in SMEs being considered as an alternative to conventional industrialisation hence their importance in the modern economy. While several studies have been conducted (Walker & Redmond, 2007; Brinkmann, 2002), there still remains scope for further research on the impact of strategic planning on organisational performance, particularly in SMEs (Karel, 2013; Dobbs & Dobbs, 2015) and this is the research gap which this research purposes to fill. The purpose of the study is to establish the impact of strategic planning on the performance of SMEs.

The successful performance of SMEs has been of big interest to economists, governments, financial institutions and other stakeholders. OECD (2000) affirms that SMEs play key roles in economic growth, employment creation and development in many developing countries. Over the years SMEs have evolved to become dominant forms of business ventures in many economies including Zimbabwe.

SMEs importance to economies is well documented and they comprise the majority of the business sector in economies (Storey, 1994; Birch, 1989; Culkin & Smith, 2000). According to Abdullah & bin Bakar (2000) as quoted by Wang *et al.* (2007), many governments around the world have increasingly promoted and supported the growth of SMEs as a key national development strategy. Saeed and Wiebe (2002) aver that “SMEs contribute to the broader process of economic development worldwide, and the sector is now being regarded as the solution to most developmental problems in developing countries.” While much SMEs in Zimbabwe cite the lack of adequate support from the financial institutions, central government and other quarters, it is the results of other related studies( Karel *et al.*, 2013; Wijetunge & Pushpakamuri, 2014; Sandada *et al.*, 2014; Njoroge & Wario, 2015; Langat & Auka, 2015; Sandada & Dubihlela, 2014; Kraus *et al.*, 2007; Kamunge *et al.*, 2014) in Africa, Europe and America that prompted the researcher to have the keenness to dig deeper about the impact of strategic planning and its bearing on the performance of the SMEs in Zimbabwe.

Sandada, Pooe and Dhurup (2014) have asserted that increased practices of strategic planning lead to high levels of business performance hence SMEs owners and managers should fully understand the strategic planning factors to improve performance. Sandada (2014) ascertained from other previous studies that there is a positive relationship between the practice of strategic planning and performance improvements and that organisation should not think that it is irrational to plan. Sandada further observes that strategic planning cushions business from the turbulent environment through the generation of

relevant information that is helpful in identifying weaknesses and strengths, opportunities and threats to the business. Mazzarol *et al.* (2004) highlight that SME owner-managers have been accused of being strategically blind or myopic and lacking the long-term vision as to where their company is headed. The lack of adequate knowledge by the majority of SMEs owners and managers on strategic planning and the thinking that strategic planning is meant for big corporations has resulted in many SMEs ignoring the practice of strategic planning and attributing their failure to other issues. Other empirical studies reveal the link between strategic planning and success (Rue & Ibrahim, 1998; Bracker, Keats, & Pearson, 1988; Lyles *et al.*, 1993; Schwenk & Shrader, 1993).

Berry (1998) has noted that by neglecting strategic management and planning, SMEs may not achieve their full performance and growth potentials, and their survival could be placed at risk.

Besides some isolated cases of lack of resources by some SMEs to continuously apply strategic planning, most SMEs seem not to be interested or are not aware of the full benefits. While the SMEs sector in Zimbabwe is highly regarded as informal, the formation of the Ministry of SMEs highlights its importance to the economy to ensure SMEs survival and growth through various support systems. In Zimbabwe, 80% of the working population is employed in the SMEs sector, 40% of Total GDP is contributed by the SMEs Sector. (The Newsday, 2015 July). Kraus, Reiche & Reschke (2007) observed that planning in SMEs does not always take place in a highly sophisticated or formal ways. Njoroge and Wario (2015) found that Strategic planning in SMEs is rather unstructured, sporadic and not formalised.

Langat and Auka (2015) reveal that strategic planning assists in providing direction so organisation members know where the organisation is heading and where to expand their major efforts. They further noted the guidance provided by strategic planning in defining

the business the firm is in, the objectives and the implementation mechanisms to accomplish the goals. In his argument, Ansoff(1970) asserted that planning generally produces better alignment and the results in companies which are strategically managed than those which are not as cited by Poku(2012).Basing on empirical literature, Wang *et al.* (2011) aver that strategic planning is generally more common in better performing SMEs and that SMEs who practice strategic planning are more likely to achieve better performance as compared to their counterparts who do not practice strategic planning and are prone to failure (Gaskill *et al.*, 1993; Perry, 2011).

In Zimbabwe, the SMEs sector is considered an important arm of the economy because of its immense contribution to the development of the country since 1980. In consideration of the critical role SMEs play in society and the economy, the government of Zimbabwe formed the Ministry of Small and Medium Enterprises (MSME) to provide the necessary support to the business activities of the SMEs. The MSME considers vendors, co-operatives and small registered companies in its category of Small and Medium Enterprises. Inyang (2013) has observed the lack of a globally accepted definition of SMEs. Various definitions of SMEs have been formulated in Zimbabwe and according to a study by Bomani, Fields and Derera (2015), the SMEDCO views the SME as an organisation that has less than hundred employees and a maximum of USD300 000.00 in annual turnover (SMEDCO, 2010. MSMECD defines an SME as a registered entity in terms of their legal status and employing between 6 to 100 people (Chirisa *et al.*, 2012). An SME Act (2011) views an SME as a business organisation with an estimated value ranging from USD 10 000.00 to USD2 million and employs between 2 to 20 people and The Reserve Bank of Zimbabwe adopted the same definition (RBZ, 2013). However, for the purposes of the study, the researcher is going to utilise the MSME Policy and Strategy Frameworks (2015) definition which state that SMEs are those who are “registered in terms of their legal status” and “employ anywhere between 6 to 100 workers.”

Bomani, Fields and Derera (2015) argue that SMEs will remain an important sector in Zimbabwe because of their provision of employment (Manuere *et al* , 2012) , contribution to the GDP (Dumba & Chidamoyo, 2012), alleviation of poverty and their participation in mainstream economy (GOZ, 2012).The RBZ Monetary Policy (2012) reveals that SMEs sector in Zimbabwe contribute 70% of the economic activity and the majority of SMEs are found in the “manufacturing, retail, transport, mining, energy, construction and service sector” of the economy ( Bomani, Fields and Derera, 2015).More than 60% of the country’s workforce are employed in the SMEs sector and contribute around 50% of the country’s GDP (National Budget Statement, 2013).The RBZ Monetary Policy Report (2013) has brought to the fore the fact that between 65 -75% of SMEs in Zimbabwe are owned by indigenous entrepreneurs and between 25-35% are owned by foreigners. Recent reports reveal that in 2015 at least 80% of the working population and according to a publication in The Newsday (2015 July), SMEs were estimated to be contributing around 40% of the country’s total gross domestic product (GDP) and at least 5.7 million were employed in the informal sector. While the SMEs sector in Zimbabwe is highly regarded as informal, its contribution to the economy calls for serious recognition at the highest level hence the formation of the Ministry of Small to Medium Enterprises to monitor the growth, performance and operations of the SMEs to ensure their continued survival through various support systems. Internationally, SMEs play an important role in the economy as well by providing as much as 66% of the total employed personnel in the private sector and accounting for 55% of total revenues in the EU (Bauer, 2002). OECD (2000) affirms that SMEs play key roles in economic growth, employment creation and development in many developing countries. Over the years SMEs have evolved to become dominant forms of business ventures in many economies including Zimbabwe. Saeed (2002) has noted the contribution of SMEs to the broader process of economic development as increasingly being recognised worldwide and furthermore the SME sector is now being regarded as the solution to most developmental problems in developing countries.

The contribution by SMEs to the general development of the country is a key positive indicator about their importance in an economy of a developing nature like Zimbabwe. With the availability of resources and other support mechanisms such as finance and trade facilities through organisations such as ZimTrade, SMEAZ, SMEDCO and MSMECD, the failure of SMEs can only be as a result of lack of proper planning activities (strategic planning). Poku (2012) indicated that strategic planning increases the efficiency and effectiveness of organisations by improving both current and future operations. The rate of failure of SMEs in Zimbabwe, as reported by the public media and other researchers, (Nyamwanza, 2014; Karedza *et al.*, 2014; Dumbu, 2014) has been bemoaned by the MSME despite the support that is available to these SMEs.

Most SMEs have not grown in terms of business size and volume and some continue to employ fewer and fewer people, which situation appears to be pointing towards a deeper underlying problem. The use of strategic planning as a tool for enhancing performance has been popular with big organisations (Vancil & Lorange, 1977) and the study seeks to critically explore whether strategic planning also affects organisational performance of SMEs that in the long run has impact on their survival. Given the current environment in Zimbabwe where there is little stability economically, strategic planning is of greater importance if SMEs must perform better. Jennings and Disney (2006) stress the requirement of increased planning, comprehensiveness and planning flexibility in unstable and competitive environments. Teeratansirikool *et al.* (2013) observe that strategic planning by SMEs enables them to cope with unstable circumstances. Wang, Walker and Redmond (2007) found that the majority of SMEs do not plan. Most past studies highlight the lack of strategic planning by SMEs (Wang *et al.*, 2007) and yet the bulk of strategy literature highlights the importance of strategic planning in the enhancement of performance (Rintari & Marange, 2012; Gates, 2010; Al isa, 2015; Poku, 2012; Shrader, Taylor & Dalton, 1984). According to Hoggetts & Kuratko as cited by Nyamwanza (2014), "Strategic Planning

can contribute to performance by generating relevant information, by creating a better understanding of the environment, and by reducing uncertainty". The consequences of letting the SMEs collapse are quite unbearable in an economy like Zimbabwe, loss of jobs, low productivity levels, negative effects on standard of living and decreasing tax revenue contributions, all impacting on the general development of the country . Renowned Zimbabwe Economist Eric Bloch in his article published in the Zimbabwe Independent of January 24 (2014) has noted that 'the reality is that the greatest single element of the economy is the SMEs', this further affirms the important space being occupied by the SMEs in the modern economy and the need to make sure they survive by all means". According to Taiwo and Idunn (2007), many organisations spend most of their time realising and reacting to unexpected changes and problems instead of anticipating and preparing for them.

Therefore, this research study is important as it endeavours to unearth the relationship between strategic planning and organisational performance of SMEs and how it is critical for SMEs to embrace strategic planning as a vital tool for performance. Based on the above background information furnished thus far, it is evident that the role of strategic planning in influencing organisational performance requires further investigation. The thrust of the study is going to focus on key strategic planning factors that enhance organisational performance as identified by the researcher.

The continuous growth in numbers of SMEs in the region, particularly in Zimbabwe and the key role SMEs play in employment creation and other developmental benefits to the economy, has motivated the need for a study in this area. The researcher is of the strong opinion that the SMEs need to grow and eventually graduate from narrow subsistence business activities into big organisation which will benefit the greater economy meaningfully. In Zimbabwe, very few, if not none studies of this kind, have been carried out to determine the impact of strategic planning on performance of SMEs. To this end, the researcher has noted

various benefits in carrying out the study and they are laid out as follows.

Resources and other kind of support for SMEs might be an effort in vain unless the SMEs appreciate and understand the need and importance of strategic planning as a key factor in their operations to enhance performance. Many SMEs are struggling in their operations and the basic thinking points at the lack of adequate resources and support, but there are symptoms indicating a problem beyond the issue of resources and support only. The outcome of the study will help SMEs to appreciate the need to use strategic planning tools as a way to enhance performance in their organisation and the study will also proffer insights on how strategic planning programs can improve performance. SMEs will have a clearer picture of how strategic planning is important to them as it is in big organisations and can help them to attain a competitive advantage to save their organisations from collapse through increased performances.

While there is a substantial amount of literature on the concept of strategic planning (Karel, 2013; Dobbs & Dobbs, 2015; McClean, 2015; Stonehouse & Pemberton, 2002), this research will provide further insights therefore extending the body of knowledge about this concept particularly as it pertains to SMEs in developing countries. The results of this research will enable a deep understanding of the concept of strategic planning and its influence on performance of SMEs. This understanding will allow practitioners and educators to provide detailed insights as they teach the subject of strategic planning and performance especially on SMEs operations.

The theory of strategic planning and its relationship with performance will be explored further. The study will contribute to the academic fraternity by providing an in-depth knowledge based on empirical research on the underlying factors on the impact of strategic planning on performance of SMEs. Consideration of relevant theories through related



literature and comparison with the outcome of research, will provide a rich ground for further studies in the Academia. Other scholars will be able to access the research report as it will be available in the library. Evidence from existing literature shows that further research is needed.

Pedagogically, the teaching and learning of the subject and theory of strategic planning will be enhanced through the study. The researcher will also benefit during the process of conducting the research such as when conducting the literature review and data collection and therefore enhancing his understanding of the successful management of SMEs.

Strategic planning remains a big challenge even in many big corporates and this problem is quickly reflected on the poor performance of organisations (Karel, 2013; Dobbs & Dobbs, 2015; McClean, 2015; Stonehouse & Pemberton, 2002). Wang *et al.* (2011) have discovered that there are greater advantages realised if SMEs practice strategic planning than not. The short -term operational models employed by many SMEs result in them ignoring the importance of strategic planning in business (Wang *et al.*, 2011). Evidence available shows that strategic planning is rare or none existent in the majority of SMEs (Jones, 1982; Gaskill *et al.*, 1993; Brouthers *et al.*, 1998; Stonehouse & Pemberton, 2002; Mazzarol, 2004). Kelmar and Noy (1990) have observed that the lack of formality in strategic planning by SMEs provides little basis upon which performance can be measured or analysed and this is a key deficiency in fully realising the rewards of strategic planning.

In a volatile economy like Zimbabwe where big organisations are facing a myriad of challenges related to operations, performance and viability, it is difficulty and almost impossible for the majority of SMEs to find their footing and perform well in the absence of proper strategic planning processes. The manner in which most SMEs businesses are administered is far from normal expected organisation standards and much SMEs are known for experiencing serious performance challenges due to lack of proper structures and management planning systems

(Mhizha, 2014). Poku (2012) recognised that “the strategies pursued by each organisation are largely accountable for the outcome of their performance”, and this statement is a clear indication of how strategic planning is related to organisational performance, hence what an organisation harvests is as a result of its strategic planning activities. In Zimbabwe where there is a fully fledged SMEs Ministry and various SMEs Associations formed to give support to the SMEs, it is normally expected that most SMEs should perform well but according to other studies carried out in the past, the opposite is obtaining (Nyamwanza, 2014; Gombarume & Mavhundutse, 2014; Mudavanhu *et al.*, 2011, Mhizha, 2014, Dumbu, 2014). As indicated by various researchers (Mutandwa *et al.*, 2015; Hobohm, 2001; Karel *et al.*, 2013; Sibanda, 2005; Kamunge *et al.*, 2014; Beck *et al.*, 2005), it cannot be doubted that the successful performance of SMEs contributes positively to the growth of the economy. In view of the deficiency of strategic planning practices and its lack of appreciation thereof within the SMEs sector, the researcher seeks to establish the impact of strategic planning on the performance of SMEs in Zimbabwe as it is considered to be an essential management tool especially in a highly unstable business environment as currently experienced.

The main objective of the study was to establish the impact of strategic planning on the performance of SMEs in Zimbabwe. The following sub-objectives have been formulated for this research study: -

- 1) To establish the impact of clear objectives on performance of the organisation;
- 2) To assess the impact of resource allocation on organisational performance;
- 3) To explore the influence of organisational structure on its overall performance;
- 4) To study the influence of implementation and review of Plans on Performance;
- 5) To determine the effect of environmental scanning on the performance of the organisation;

- 6) To understand the effect of employee participation in planning on the performance of SMEs in Zimbabwe.

The following research questions have been formulated around the research objectives stated above. The main research question was: What role does strategic planning play on SMEs' performance, and should SMEs practice strategic planning?

The sub research questions are:

- 1) To what extent does the setting of clear and concise objectives affect the performance of an SME in Zimbabwe?
- 2) How best should these objectives be set?
- 3) How does organisational structure affect organisational performance?
- 4) How best should the organisation plan its structure to improve performance?
- 5) How does human resource planning affect the performance of SMEs?
- 6) To what extent does planning for implementation and review affect the performance of the organisation?
- 7) What are the key determinants of an effective plan for implementation?
- 8) To what extent does the strengths and weaknesses of an organisation affect its performance?
- 9) How best should the organisation utilise its strengths to enhance performance?
- 10) How best the organisation should manage its weaknesses and sustain performance?
- 11) What is the net effect of opportunities and threats in the obtaining environment to the performance of the organisation?
- 12) How best the organisation should explore the opportunities available and defend against threats.
- 13) How does lack of employee participation in planning affect the performance of the organisation?

- 14) How should employees be involved?
- 15) At what stages of planning should employees be involved?

The study seeks to evaluate the impact of Strategic planning on the performance of SMEs and the relationship between the two shall be determined. To effectively address the study's research questions and objectives, the following hypotheses were formulated for testing to ascertain their truthfulness:

- H0:** There is no relationship between strategic planning and performance of SMEs;
- H1:** Strategic planning has a bearing on the performance of SMEs;  
*The study's other hypotheses are outlined as below:*
- H2:** Well-articulated organisational objectives directly influence the overall performance of the organisation;
- H3:** The way how an organisation is structured influences its performance;
- H4:** Organisational performance is influenced by the existence of a plan for the allocation and utilisation of resource;
- H5:** An effective plan for implementation and review is necessary for the good performance of the organisation;
- H6:** Effective environmental scanning is critical for organisational performance;
- H7:** Employee participation in planning influences the performance of SMEs in Zimbabwe.

**Geographical:** The research study will consider SMEs in Harare, the capital city of Zimbabwe because of its immense economic activities. The fact that the researcher is based in Harare is promoting the study to be concentrated in the capital city.

**Participants:** The study will solicit for data from owners and senior management within these SMEs. This will enable the extraction of relevant information which directly relates to Strategic planning and its effect on performance of the organisation.

**Literature:** The study seeks to review literature which specifically relates to issues of strategic planning and organisational performance. Literature which does not relate to the delimitation outlined will be ignored. In addition, only current data (at least 6 years old) will be reviewed. This allows the researcher to bring the current study to reality through surveying topical streams of literature.

**Data period:** This research will rely on latest data on SMEs in Zimbabwe and their performances. Secondary data collected will be ranging from period 2009 to current. The deliberate choice of year 2009 is necessitated by the fact that it is during this period when the economy started using a more stable currency. It is during this period that substantial amount of growth was witnessed by many SMEs.

In the study, the following are potential limitations:

**Measure used to collect the data:** Even though a structured questionnaire has been known to be an effective tool for collecting data, this may not be the case as with the study. This is due to the fact that the researcher intends to use an original questionnaire; never used before in other studies. Therefore, after completing my interpretation of the findings, I may discover that the way in which i gathered data inhibited my ability to conduct a thorough analysis of the results. For example, regretting not including a specific question in a survey that, in retrospect, could have helped address a particular issue that emerged later in the study.

**Sample size:** This research uses a sample of 370. This is relatively a small sample size. However, the nature of the study will not be overly affected by the sample size and measures will be put in place to avoid the effect of sample size on the results.

- Several assumptions were identified as important to this research study;
- The researcher assumed that there is perceived benefits accrued from practicing strategic planning by SMEs;

- Organisational performance is highly dependent on strategic planning;
- The researcher assumed that there will be easy access to relevant SMEs data bases to access the relevant information relating to the study;
- It must also be possible to administer the questionnaires and interviews to all identified respondents as determined by the sampling rules without any challenges;
- It will also be necessary to get adequate cooperation from all the respondents and that such selected respondents will be willing to engage and share their information with the researcher.

#### Definition of Terms and Abbreviations

Strategic Planning: A long-term systematic and formalised way of planning business activities.

Organisation Performance: the achievement of the firm's goals and objectives.

Resource Allocation: A plan for using available resources.

Resources: Tangible and non-tangible assets that can be drawn on by a person or organisation to function effectively.

Implementation: The process of executing a plan or a decision.

Structure: the arrangement of and relations between employees of the organisation.

Objective: An intended achievement or goal of the organisation

Small and Medium Enterprises: Business establishment with at least six and less than 100 employees.

Owner/Manager: The founder and person responsible of a business.

SMEs Association: A non-profit representative organisation for small and medium sized business organisations.

**Chapter 1:** The chapter provides the general outline of the whole study, a detailed discussion on background of the study, statement of the problem, research hypotheses, research objectives was done the future framework of the study is provided in the chapter.

**Chapter 2:** Reviews the relevant literature on the impact of strategy planning on the performance of SMEs. The chapter will review both theoretical and empirical literature and establish any existing gaps which will provide the base for the study.

**Chapter 3:** Will present the methodology used in the research study based on the activities carried out by the researcher in extracting data. In the chapter, the researcher will focus on research paradigm and philosophy, research design, population of the study, sampling, research instruments, data analysis and presentation, ethical consideration and reliability and validity of the study.

**Chapter 4:** Presents and interprets the data collected from the administered questionnaires and interviews with SMEs and discusses the findings of the study in detail. Interpretation and presentation of data will be conducted in various forms including, graphs, pie charts, tables and diagrams

**Chapter 5:** presents the summary, conclusions and recommendations. The researcher will summarise findings, make conclusions and recommendations and proffer any information for further study and future improvements.

The chapter is the introductory chapter of the study and has focused on; giving the background to the research problem, justification of the study, stating the research problem, outlining conceptual framework, highlighting objectives of the study and stating the hypotheses and the limitations and delimitations of the study on the impact of strategic planning on the performance of the SMEs in Zimbabwe. The chapter also outlined the full structure of the entire study. The following chapter, chapter 2 focuses on the existing literature which was reviewed for the purposes of the study.