

HOW DO AUSTRALIAN SMEs PLAN?

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The objective of this paper is to report on survey research focused on strategic planning in small-to-medium enterprises (SMEs) aimed at exploring how Australian SMEs plan. More specifically, answers to the following questions are sought across 1230 Australian SMEs utilising survey methodology: 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 planning practices undertaken in Australian SMEs. Most of the research undertaken to date within the Australian context has been directed towards identifying the value of planning and investigating the presence or absence of formal planning in small businesses. 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. This contradicts the notion that SMEs tend to employ an ‘emergent’ strategic approach. Furthermore, even though both small and medium Australian enterprises tend to employ a deliberate approach, it is clear that medium enterprises employ written strategic/business plans significantly more than small organisations. This confirms previous research that larger firms tend to undertake strategic action within a framework of a written business plan to a greater extent than small firms. The mere fact that SMEs plan and adopt planning suggests positive benefits, however even though Australian SMEs seem to employ a deliberate approach to strategy making, few sophisticated planning techniques were employed. As a result strategic management courses targeted to SMEs will be well advised to focus on less time-consuming and expensive tools to use that are more suited to the needs of SMEs.

INTRODUCTION

Within the Asia Pacific region, SMEs make up about 99% of all enterprises 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% (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 four year period to June 2007 (ABS 2008). 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 which represent the majority of Australian businesses and that employ less than 200 employees.

Activities which can improve the sustainability of the SME sector should therefore be promoted because academic writings overwhelmingly link business success with business planning (Jocumsen 2004, p.659), and with the crucial contribution of strategic planning (for example, Allen 2007; David 2007; Hatten 2006; Hodgetts and Kuratko 2008; Reynolds, Williams & Savage 2000; Rue & Ibraham 1998; Samson & Daft 2005; Schaper & Volery 2007).

It has been noted that SMEs which utilise some form of strategic approach, however informal, do perform better and are more likely to endure (Hannon and Atherton, 1998). Therefore, involvement in a strategic development process may separate successful SMEs from those who experience problems in survival (Marlow 2000; Verreyne 2006).

At this stage of the presentation of our study, it might be useful to ask, "does strategy making in SMEs matter?", in order to consider the significance of the research. Research into SMEs has highlighted 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 (Rue & Ibrahim 1998; Gray 1997; Gibbons and O'Connor 2005). Of the latter, we focus this paper on the less examined position of small and medium enterprises (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.

However, Australian SMEs represent by far the modal organisational architecture. 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. This research focus on large organisations has led to a gap in the literature relating to strategic planning and its sophistication ('degree of completeness') (Rue & Ibrahim 1998; O'Regan and Ghobadian 2007) even though strategic planning is now an established management tool in small and medium-size enterprises (Rue and 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 (see Gibson and Cassar 2002; 2004; Kotey and Meredith, 1997). Much of this 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 (Burgelman 1983, Mintzberg 1994, Brown and Eisenhardt 1998; Harris, Forbes and Fletcher 2000). Very few studies examined various strategy-approaches based on a broad sample of firms as is the case of the present study (Gibcus and Kemp 2003; Hart and Banbury 1992, Lumpkin and Dess 1995, Covin and Slevin 1997; Leitner, 2007).

Another contribution of this study is that it adds to the little empirical research showing the principal activities and tools that comprise the planning practices undertaken in SMEs. Most of the research undertaken to date has been directed towards identifying the value of planning and investigating the presence or absence of formal planning in small businesses.

Against this backdrop, the **objective** of this research is to determine how Australian SMEs plan. Integral to this objective is in 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 more specific analysis and second part of the first research question examines the patterning by firm size.

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

The third research question provides a snap-shot 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, but rather is an exploratory investigation into a field of study which appears to attract less attention in research than would be their proportional representation across Australian employment.

STRATEGIC APPROACHES IN SMEs

According to Pasanen (2003), studies of strategy are oriented towards the process of strategy (see for example Pettigrew, 1992) or the content of strategy (see for example Olson & Bokor, 1995). The focus of this paper is on strategy as a process. Research on strategy processes is considerable and as a result, numerous strategy process frameworks and taxonomies have been developed (Leitner, 2008). For example, in the classical work by Mintzberg (1973), he 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 is 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.

Mintzberg and Waters (1985) view strategy as consistency in behaviour whether or not it is intended and they define the concept of emergent strategy as a pattern in a stream of actions. In contrast, 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 (Leitner, 2008). 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. As 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, the small collection of empirical evidence for the emergent nature of strategy has so far mostly been analysed by case studies or through anecdotal evidence (Leitner, 2008). Despite this observation, the more informative studies for this research were based on survey methods.

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 and Covin, 1997).

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 (1989) study.

Verreynne (2006) surveyed the role of strategy-making in 477 small New Zealand firms. Her structural equation analysis of the data indicated among other results that four modes of strategy-making (simplistic, adaptive, entrepreneurial and participative) exist in these SMEs. Of these modes, the simplistic mode exhibits the strongest relationship with firm performance. Lumpkin and Dess (1995, p. 1403) describe the simplistic mode of strategy-making as “single-mindedness, narrowly construed decision-making, and excessive attention to a specific internal strength or external opportunity”. From her literature review, Verreynne (2006) found the rational, adaptive, participative, simplistic, command, symbolic, and entrepreneurial modes of strategy-making in most of the existing strategy making typologies.

However, she questions the existence of a rational mode of strategy-making in small firms and suggests that the command and symbolic modes are in effect the same mode of strategy making as simplistic strategy-making. Verreynne (2006) agrees with Hart (1992) who suggests that it is entirely possible that some modes can be used at the same time by a firm, and therefore can be represented by another mode of strategy-making. For this reason, she has only used four modes of strategy-making. The emergent mode of strategy-making is associated with the adaptive mode.

SMEs 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, 2008). Using such a continuum, and informed by the research mentioned above, this study investigates the nature of strategy formation of Australian SMEs by employing a large scale national survey.

RESEARCH METHODOLOGY

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

This study employs a mix of the two types of research designs. Firstly, this study is exploratory in nature because there is not a proliferation of the subject material that exists in this area with the SME context in relation to strategic planning. It is also anticipated that managers can gain a better understanding of the research problem in a broad sense; and it is hoped that the proposed study will serve as a jumping-off point for further research into more specific areas. Secondly, this study is descriptive in nature because the study provides data on strategy-making approaches about a specific sample drawn from the population being studied. Furthermore, the results describe characteristics of a population by determining answers to who, what, when, where and how questions in relation to strategic planning approaches in Australian SMES.

This study draws on the work by Harris, Ford and Fletcher (2000). Their study differentiated the strategy development processes on the basis of a planning or deliberate process versus an

emergent process. They identified eight components of the strategy process in order to make such a differentiation across their case studies. In this study, five of the eight components were utilised.

We have added one additional strategy component: 'Relevance of strategic plan to ongoing success of the business'. This was done because this component gives an indication of the mindset of SME managers in relation to the third research question which focuses on deliberate versus emergent approaches. Furthermore, a SME manager who attaches importance to the link between strategic planning and organisational success would be more inclined to engage in more deliberate strategy approaches. This was supported by correlating measurement component 6 (relevance of strategic plan) with component 1 (nature of strategic planning). The results revealed a significant statistical correlation (chi-square: 279.145; significant at $p < 0.01$).

Three other strategy components were identified by Harris, Ford and Fletcher (2000, p127) to distinguish between deliberate and emergent approaches, including: 'formality of discourse'; 'choices and decisions'; and the use of 'outside advisors'. However, we did not assess these three components in our survey and were therefore not in a position to draw inferences about these aspects. However, regarding the component use of 'outside advisors' we did ask respondents whether they use external consultants/experts to help them compile their strategic business plans (37 percent); and whether external consultants are involved in the strategic business planning process (21 percent), however we did not ask them 'how' they use external experts consultants, neither did we explore the dynamics of their involvement.

Table 1 summarises the classification of 'planning' versus 'emergent' approaches of strategy formulation utilised in this paper. The table also reflects how we have measured these classifications through specific survey questions.

Table 1: Dimensions of deliberate and emergent approaches of strategy used in this study

Components of the strategy process	Deliberate approach	Emergent approach	Relevant measurement dimensions in the survey
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	1. Nature of strategic plan 3. Establishment of business/operational plan 7. Extent to which resulting plan is written 9. Vision, mission and 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	10. Tools/techniques to help compile strategic business plan and 11. Areas of analysis in overall plan of strategy 6. Areas of planning for ongoing performance
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	12. People involved in the strategic planning process
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	4. Have specific goals and objectives been identified as part of strategic/bus plan?
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	5. Has the business altered its practices in order to achieve the goals and objectives identified in strategic/bus plan? 8 How often are plan subsequently reviewed?
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	2. Relevance of strategic plan to ongoing success of business

Source: Adapted from Harris, Forbes and Fletcher (2000)

The questionnaire therefore 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 which was measured by questioning respondents which tools/techniques to help compile strategic business plan and systematic analysis of a range of areas in overall plan of 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 strategic/business plan.

(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 identified in the strategic/business plan 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 of relevance of formal written business plans to the ongoing success of their businesses.

In this study, small businesses are constituted by 100 or fewer employees, (applying the Australian Bureau of Statistics definition of small business in manufacture to all industries) and medium-sized businesses ranging from 101 to 200 employees. However, we used 10 employees as the lowest extremity for size because such organisations are expected to have some kind of a management structure.

Survey methodology was employed in this study. A survey questionnaire was developed to measure strategy formulation processes in Australian SMEs. The validity of the questionnaire was addressed by examining the content validity and reliability. The content validity was determined by asking a panel consisting of SME managers, HR experts and academics in HR, to comment on the suitability of each item. The reliability analysis indicated Cronbach Alpha Coefficients of between .80 and .90 for each section.

In terms of the sample, the questionnaire was sent out to 4000 Australian small and medium-sized enterprises. A Dun and Bradstreet database was used and a stratified sample according to the following criteria was employed: all ABS industry categories excluding agriculture; employee size between 10-200 employees; a personalised address label targeting the CEO or MD; and representation of each state and territory in Australia. The highest proportion of questionnaires was received from Queensland (32 percent), NSW (26 percent), Victoria (21 percent), Western Australian (7 percent) and South Australia (5 percent). The ACT and Northern Territory comprised the other 9 percent of the sample. 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 percent or 349 questionnaires of the total sample), a response rate of 34 percent was achieved (N=1230).

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 3, a chi-square analysis was used to determine whether there were significant differences in relation to strategic practices between small and medium organisations.

Demographic profile of respondents

Small businesses (fewer than 100 employees) constituted 49 percent of the sample and medium businesses (101 – 200 employees), 51 percent. The ABS industry categories were used to describe the main operations of the organisations. The manufacturing category was

represented by the highest percentage of respondents (19 percent). Each of the remaining categories represented less than 15 percent of the respondents.

Thirty-nine percent of organisations were family organisations of which family members are working directors of 59 percent of these organisations. Sixty percent exported their products or services of which 87 percent had been exporting for more than three years. Less than five percent 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. Nine out of ten SMEs could be said to generally be 'surviving' businesses with more than 90 percent of businesses having been established for more than 5 years.

Forty-five percent of SMEs did not have a designated manager whose principle responsibility covered human resource management and 50 percent 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 percent union membership. Eighty-five percent of respondents claimed to have a post-secondary school qualification of which, 69 percent were older than 45 years, 40 percent were owners or part owners and 34 percent were female.

RESULTS: STRATEGIC APPROACHES IN AUSTRALIAN SMEs

This section reports the results regarding the 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: Strategic/business plans

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) 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 Strategic plans evident in Australian SMEs

Survey questions	f	%	Size		Chi-Square
			Small %	Medium %	
<i>The extent to which the firm employs a strategic plan</i>					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 use 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	
<i>Established a business/operational plan</i>					5.455*
<i>Are the resulting plans:</i>					63.817*
All written	554	54	42	66	
Some are written	429	42	52	33	
None is written	36	4	6	1	
<i>Which of the following does the company have in written format:</i>					
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

There was a high level of evidence of the use of strategic/business plans in relation to 3 of the 4 practices in Table 2. 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 percent of SMEs reported having a written strategic plan (62 percent of small compared to 76 percent of medium enterprises); 81 percent of SMEs have established a business/operational plan (79 percent of small compared to 84 percent of medium enterprises), 96 percent of SMEs indicated that the resulting plans are either all written or some are written (94 percent of small compared to 99 percent 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 percent). 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.

Component 2: Nature of the process of analysis

The *process of analysis* comprises three questions in the survey. These questions provides relevant information regarding the extent to which structured analysis precede decision. This component includes the questions: the areas for which the SME set aside time at least once per year, specifically to plan for ongoing performance; the tools and/or techniques the SME employs to help compile strategy; and the areas analysed and included in the overall strategy for the ongoing well being and growth of the business.

Table 3 Process of strategic analysis within Australian SMEs

Survey Questions	f	%	Size		Chi-Square
			Small %	Medium %	
Areas of planning for ongoing performance					
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
Tools/Techniques to help compile strategic plans					
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*
Areas of analysis in overall strategy					
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

At first glance, Table 3 reveals a generally high level of inclusion of various planning areas for the ongoing success of the business (5 of the 6 areas stated in the survey). Half of the planning areas shows influence of firm size where medium size firms include the areas of human resources, marketing and technology to a greater extent than small firms.

The most popular strategy tools/techniques included well known formal tools including spreadsheets (74 percent); brainstorming (70 percent) and SWOT analysis (58 percent). 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 (6 percent to 33 percent of usage of all other tools/techniques). Furthermore, medium enterprises employ eight of the eleven tools to a significantly greater extent than small organisations.

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 twelve of the seventeen areas (36 percent to 65 percent) and a low level of inclusion in the remainder four areas (18 percent to 33 percent).

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, in other words, in line with a deliberate approach.

Component 3: Nature of organisational boundaries

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.

Table 4 Nature of organisational boundaries in Australian SMEs

Survey Questions	f	%	Size		Chi-Square
			Small	Medium	
<i>People involved in the strategic planning process:</i>					
Chief executive	794	64.8	53.9	75.4	61.947*
<i>Others players in firm:</i>					
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*
<i>Players outside firm:</i>					
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*

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 percent), with the financial manager also playing an important part (61 percent). Furthermore, there is a moderate involvement of other players in the firm (ranging from 15 percent to 50 percent) and a very low participation of external players (less than 22 percent). It is also evident that medium enterprises include 13 of the 16 participants listed in Table 4 to a significantly greater extent than small enterprises.

Component 4: Use of setting objectives

This section reports the degree to which the setting of objectives is a formal, central and referred to part of the strategic process in Australian SMEs.

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

Objective setting is an integral part of the strategy 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. However medium enterprises have done this to a significantly greater degree than small enterprises. SMEs therefore employ a more deliberate approach in relation to this component.

Component 5: Outcome review

This section reports the extent to which Australian SMEs review outcomes against decisions and objectives and whether this is done periodically, and possibly scheduled.

Table 6 Outcome review evident in Australian SMEs

Survey Questions	f	%	Size		Chi-Square
			Small	Medium	
			%	%	
<i>Has the business altered its practices in order to achieve the goals and objectives identified in the strategy process</i>	179	55	51	50	1.803
<i>How often are plans subsequently reviewed</i>					
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

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 percent of respondents indicated that they review their plans periodically (either weekly, monthly, quarterly or annually). However medium enterprises (97 percent) review their plans significantly more often than small enterprises (89 percent). It therefore appears that SMEs employ a deliberate approach regarding this component.

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.

Table 7 Relevance of strategic plan evident in Australian SMEs

Measurement Constructs	f	%	Size		Chi-Square
			Small %	Medium %	
<i>Relevance of strategic plan to ongoing success of business</i>					7.843*
Vitally important	159	41	34	47.3	
Important	208	53	60	46.8	
Completely irrelevant	24	6	6	5.9	

*P<0.05

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.

DISCUSSION: DELIBERATE OR EMERGENT?

The results of this study 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) is referring 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 Oxford (2000, p.16) views on the 'Classical School' of business strategy. Oxford (2000) argues that its roots stem from a military strategy model, and views it as incorporating the three prescriptive schools of strategic thought espoused by Mintzberg, Ahlstrand and Lampel (1998) being design, planning and positioning (Oxford 2000, p.25). Oxford (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' (Oxford 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 (Oxford 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. Furthermore, the 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 including spreadsheets, brainstorming and SWOT analysis. SMEs' high engagement in these three formal tools/techniques are indicative of a deliberate approach to the component 'process of analysis' measured in this study (Bahae 1992; Lyles et al. 1993 and Oxford 2000).

Furthermore, 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 financial manager also playing an important part. Only a moderate involvement of

other players in the firm was found and a very low participation of external players. This scenario is in line with a deliberate approach to strategy-making.

Overall, SMEs overwhelmingly indicated that they have identified goals and objectives as part of the strategic/business plan. The majority of SMEs have also altered their business practices in order to achieve their goals and objectives identified in process. Furthermore, SMEs overwhelmingly indicated that they review their plans periodically (either weekly, monthly, quarterly or annually).

The results indicated 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.

What could explain the overwhelming use of a deliberate approach in Australian SMEs? We suggest that specific triggers for Australian SMEs to adopt a deliberate planning approach could be the fact that most teaching programs are based on formal business planning (Harris et al. 2000) and 70% of respondents in our survey reported they possessed either an undergraduate degree (23%), a postgraduate diploma or certificate (18%) or a postgraduate degree (29%). For example, 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, L & Adam 1998; Summers, Gardiner, Lamb and Hair 2005). Furthermore, management texts espouse an approach which includes: setting 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. Goal setting is usually regarded as an integral and formal part of the process. Thus there is considerable overlap between this approach and that outlined by David (2007). Dr Fred David is the sole author of three widely used text books on strategic management, the first of which was published in 1986, and which are all on a two-year revision cycle (David 2007). These texts are stated to have been used in many prestigious institutions, including Harvard University, Duke University and Johns Hopkins University.

Many Australian universities also prescribe this text in their Business strategy courses. The text is estimated to be read by 90,000 students annually, and has been translated into multiple languages (David 2007). Logically 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. For example, David (2007, p.5) defines the strategic management process as ‘consisting of three stages: strategy formulation, strategy implementation, and strategy evaluation’. Furthermore, text books such as the text by David (2007) highlights 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.

Furthermore, 60 percent of the respondents that reported they possessed an undergraduate degree, a postgraduate diploma or certificate or a postgraduate degree, claimed that their main source of ideas about management came from their management training. It is therefore logical to conclude that this approach would be forming the basis of strategic planning approaches for significant percentage Australian SMEs.

However, 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 (for example Lee Iacocca), and especially self-made millionaires, such as Sir Richard Branson, who project a ‘you too can be successful like I am if you follow my example’ approach. The academic validity of these would clearly depend on whether they have been appropriately reviewed, and/or based on sound scientific research, but they are typically written to appeal to non-academically oriented people, especially those for whom the idea of reading a text book could be highly unattractive. At least some SME owners could be assumed to be included under this category.

Another factor responsible for the trend towards deliberate strategy-making approaches in Australian SMEs, could be the fact that this type of planning approaches are more suitable to mature business contexts (Mintzberg and Waters 1985). In our sample, nine out of ten SMEs could be said to generally be 'surviving' businesses with more than 90 percent of businesses having been established for more than 5 years.

It is clear from the discussion above, that 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, several authors argue 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 which 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.

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 (de Kok 2003). Formal management education and gaining management skills by co-operating with other managing employees are often limited and consequently the ability to use classical management tools properly 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 some previous studies' conclusions that large firms and SMEs strategic planning differ significantly. Harris, Forbes and Fletcher (2000) found that 'strategy-making in small firms is mainly emergent, adaptive and reliant on

personal relationships'. Furthermore, Verreynne (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. Nine out of ten SMEs reported that they view a strategic plan as either vitally important or important to the ongoing success of their business.

However, what about the difference in strategy-making approached between medium and small firms? 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. 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, even though 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 also of a deliberate nature.

Could Australian SMEs be characterised as 'deliberate' or 'emergent' in their strategic approaches? Our study indicates that there is a definite trend in Australian SMEs to employ

a deliberate approach to strategy-making. 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 indicated even though the firm's financial circumstances was the main area of analysis in devising SMEs' strategies as per the deliberate approach (Bracker, Keats and Pearson' 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. They suggest that normative planners would scan proactively, but incremental planners would do so only when needed.

PRACTICAL IMPLICATIONS

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

Second, Australian SMEs clearly find value in utilising deliberate approaches to strategy-making (otherwise they would not engage in them). However they should not lose sight of how they could optimise the advantages that stem from their smaller size (in comparison to their larger counterparts), in order for them to benefit from aspects such as continually developing their capabilities to be strategically aware (Verreyne 2005) and interact with stakeholders to a greater extent with a view to considering an array of suggestions on the

strategic direction of the firm. This will open up more strategic avenues and limit a 'group think' phenomenon.

Third, in evaluating the results of this study, managers should, consider the role of the business environment in the type of strategy-making they employ. Although some earlier studies found that deliberate planning processes are effective in stable industries (Fredrickson 1984), more recent studies indicate that strategic planning is effective in dynamic environments, too (Brews and Hunt 1999). However, authors such as McGrath and Mac Milan (1995) argue that discovery-driven planning is most appropriate in turbulent environments. Therefore, in the current environment of economic downturn a SME ought to keep a certain level of strategic flexibility. Slevin and Covin (1997) demonstrate that firms that follow an emergent strategy mode were astonishingly more often successfully in benign environments. Therefore, different environments, for instance characterised by hostility, dynamics and positive growth should offer more or less opportunities for effective emergent strategy-making. Furthermore, McCarthy, Spital & Lauenstein (1987) and Covin et al. (2001) argue that in high-tech environments firms have to rely stronger on intuitive decision making.

Forth, 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. This is in line with emerging strategy literature which views the strategy-making process as incorporating elements of both approaches, with the selection of either process depending upon contextual factors.

Fifth, there is plenty of evidence in the literature that emergent strategy-making is important to SMEs and matters. Leitner's (2007, p18) study found that 'all companies which belong to the group of emergent strategist had at the same time realised planned strategies and thus are capable of performing different strategy-making modes simultaneously, a capability which is stresses as important in the extant literature'. They also found that in SMEs emergent strategists arise by responsive actions, grasping of new opportunities on markets or incremental product improvement by the small business manager or entrepreneur which can lead to a realised and deliberate strategy over time. They argue that the nature of emergent

strategy-making can also be seen as enforcement of something that a company already did and became popular in the industry, too.

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. Within a dynamic changing business environment, too much deliberate planning could pose a disadvantage if the process of strategy-making becomes too rigid. Furthermore, Leitner (2007) argues that this situation is probably unlikely to arise in the SME environment since SME managers and entrepreneurs are too clever to waste time and excessive amounts of time in long planning exercises and they or do not have to convince so many stakeholders about the rationality of the chosen strategy as often the case in larger firms.

FUTURE RESEARCH

The findings from this research represent an advance for those concerned with understanding more about the way Australian SMEs plan. However, 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. Verreynne (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.

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. This would be a worthwhile research question for further studies.

Another interesting line of study following on from the results reflected in the current study is comparing the strategy-making approaches within different industries (e.g. services, manufacturing etc.).

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.

Finally, most practitioners would no doubt wish for a relationship between the 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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