

# Business Planning in Small and Medium Enterprises in Botswana

ZT Temtime

University of Botswana

## ABSTRACT

*Although the relationship between planning and profitability is inconclusive, there is much consensus in the strategic management literature that no firm can survive in today's turbulent and competitive markets without some form of business planning. This paper examines the business planning practices of small and medium enterprises (SMEs) with special reference to the planning processes and contents. Data were collected from 87 SMEs in three cities in the Republic of Botswana through a structured interview. The findings of the study indicated that owner-managers of SMEs are not actively involved in the planning process. Instead, they use external consultants and advisors to prepare their business plans, which they use primarily for the purpose of external validation and legitimacy. Although both small and medium sized firms put greater emphasis on operational and short-term survival oriented issues than strategic activities, the study found that there is a positive relationship between firm size and planning practices. As a firm grows in market share or number of employees, owners-managers tend to actively engage in the planning process. The study stresses the critical importance of business planning process rather than business plans in developing strategic thinking and awareness in SMEs. Some suggestions and implications for future research are also discussed.*

## Why Business Planning?

Business planning is critical for the success of SMEs. Few firms, regardless of size or location, can survive without some form of planning. Although research on the business planning practices of small firms in developing African countries is sparse, the reasons for business planning are numerous. Organizations must plan to ensure that the future is taken into account. Formal planning forces firms to formally, systematically, and properly recognize future implications of present decisions as well as current implications of future events. Peter Drucker, the well-known practitioner oriented author, says that "... But tomorrow always arrives. It is always different, and even the mightiest company is in trouble if it has not worked on the future (1984)." Organizations must plan to also coordinate their activities. A major argument in favour of planning is that decisions made together during the planning process will ensure that the efforts of the organization are properly coordinated. The articulation of plans provides a mechanism of communication that promotes coordination across the different parts of the organization. By providing a realistic model of future results, it

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*The author wants to thank the Faculty of Business Research and Publications Committee for financing this study and the two anonymous referees for their suggestions and comments on an earlier draft of this paper.*

becomes possible to adjust strategies to keep the firm on target. Planning also makes sure that resources are available as required.

The objectives of this study are twofold- to investigate the planning behaviour and practices of SMEs and to make some recommendations and draw implications for SMEs, researchers, practitioners and support agencies.

## **Business Planning And Financial Performance**

The findings of previous studies on the financial performance of planning and non-planning firms are mixed and inconsistent. Although a number of studies (Robinson and Pearce, 1984; Dean, Brown, and Bamford, 1998; Frese, Gelderen and Ombach, 2000; Shrader, Mulford and Blackburn, 1989; Schwenk and Shrader, 1993) found that planning firms achieve better financial performance than non-planning firms, some studies (for instance, Boyd, 1991, Lyles, et al., 1993) found that planning firms performed no better than non-planning firms. Many studies concluded that planning formality is positively related to firm performance (Bracker and Pearson, 1986; Shrader, Mulford and Blackburn, 1989; Bracker, Keats and Pearson, 1988). Even though there is general agreement among strategic management researchers on the positive relationship between formalized planning and financial performance, other studies (for example, Najjar (1966), Unni (1981); Pearce, Freeman and Robinson, 1987; Robinson and Pearce, 1983) concluded that the relationship is 'tenuous'. Robinson and Pearce (1983) studied 38 non-formal planners and 12 formal planners and found that formal planners put more emphasis on setting goals and objectives than non-formal planners who find formal goals and objectives of secondary importance. Shrader, Mulford and Blackburn (1989) concluded that formal plans are superior to informal plans because the process of writing the plan forces ideas and objectives to be thought out. Indeed, a study by Robinson and Pearce also suggests that the more sophisticated the planning process, the better the organizational performance (1988). While SMEs usually do little planning, studies show that those with formal planning outperform their counterparts, because formalized planning provides a statement of purpose, which extends throughout the firm (Frese, Gelderen and Ombach, 2000; Matthews and Scott, 1995). Miller and Cardinal (1994) reviewed 26 studies and concluded that strategic planning positively influenced firm performance. A similar analysis of 14 studies by Schwenk and Shrader (1993) concluded that the relationship was not only positive but also significant. In contrast, Pearce, Freeman and Robinson (1987) reviewed 18 empirical studies and concluded that the link between formal strategic planning and firm performance was 'tenuous'. Boyd's (1991) analysis of 21 studies found that the formal strategic planning/performance link was weak. Robinson, Logan and Salem (1986) found that strategic planning was not related to improved financial performance of small firms, but that operational planning was positively related to performance. Najjar, (1966) studied 118 small

manufacturing companies, and Unni (1981) studied 120 manufacturers and retailers, and both found that top managers judgment was a more important determinant of performance than strategic planning; and that few small businesses have engaged in strategic planning. These studies suggested that improving the effectiveness of operational planning might be critical for the success of SMEs. Robinson and et al (1984) for example, found that SMEs managers considered operational planning more important than strategic planning. Armstrong (1982) noted that SMEs tend to devise a strategic plan by simply extrapolating an operational plan into a larger time frame, which shows the need to provide SMEs with access to formalized planning resources and to engender commitment to the strategic planning process.

The small business failure in Botswana is over 80 percent (Government paper, 1998). The most frequently cited cause of business failure is the somewhat simplistic and all-encompassing notion of "poor management". Argenti (1976) stated that: "While everyone agrees that bad management is the prime cause of failure, no one agreed what 'bad management' means or how it can be recognized except that the company has collapsed-then everyone agrees how badly managed it was".

## Methodology

A descriptive survey research method was designed to study 123 SMEs that were randomly selected from three cities in the Republic of Botswana between June 2000 and September 2001. Small firms were defined as having six to twenty five paid employees while medium companies were defined as having paid employees ranging from twenty-six to ninety nine (Government Paper, 1997). Micro, large as well as establishments were excluded from the sample. The responses of 87 (71 percent) of the selected sample firms were used for this study. A structured interview instrument with two sections was employed to collect data. Section one was designed to collect data on the characteristics of sample firms and their management profile. Section two measures the level of importance attached to eight planning process indicators and eleven planning content indicators, using five-point Likert type scales, with anchors ranging from five (very high) to one (very low). These data were analyzed using simple descriptive statistics such as mean, standard deviation and correlation coefficients. The use of means and standard deviation was intended to evaluate the degree of importance attached by the SMEs to the eight process indicators and the eleven content indicators and for ranking purpose. The Pearson's product-moment correlation coefficients were also calculated to evaluate the relationship or association between and among the selected indicators.

## Results and Discussions.

### *Characteristics of SMEs.*

Of the 87 sample SMEs, 39 (45 percent) were service firms, 32 (37 percent) were manufacturing, and the remaining 15 (17 percent) were merchandising (wholesale and retail business) firms. The sample SMEs consisted of 62 small and 25 medium sized companies. Most of the sample companies (57 percent) have been operating in Botswana for over ten years; 34 percent of them operated for seven to nine years and only eight percent of them have less than three years experience. Botswana and other nationals owned 52 percent of the firms jointly, 34 percent were owned by foreigners and 14 percent owned by locals.

### *Managerial Profile of SMEs.*

The majority of the managers (57 percent) were between 31 and 40 years old and 33 percent were between 41 and 50 years. Only 9 percent of the managers were below 30 years. Furthermore, most of the respondents (47 percent) have college certificate and diploma level training while some (23 percent) have university degrees and postgraduate qualifications. Only one manager had a level of education below high school. Most managers (67 percent) have general management experience for over seven years; 31 percent of them have worked as managers elsewhere for up to six years, and only two managers have less than three years general management experience. Seventy-four percent of the managers have been managing their present company for over three years, and only 26 percent of them managed their current companies for less than three years. Sixty three percent of the managers in the sample firms were employed professionals and owners/family members managed only 15 percent of the sample firms. The managers were asked if they have received any formal training in business planning. Sixty three percent of them are employed professionals; only 33 percent have formal training in business planning.

### *The Use of Business Planning.*

The respondents were asked whether they engaged in business planning or not. Almost all the firms (95.5 percent) responded positively and confirmed that they did some form of business planning. They were also asked if they had written business plans. It is interesting that 87 percent of the sample firms responded positively. However, detailed analysis of the data revealed that while using the services of external consultants in the preparation of plans, SME owners/managers were not actively involved in the planning process. External consultants prepared 57 percent of the business plans. The majority of sample firms (51 percent) use these plans for the purpose securing loans from banks, government, registrar of companies, investors and other stakeholders. The majority of the

business plans prepared by external consultants had a planning horizon of two to five years. Most SMEs considered them as legal documents that must be filed for future reference in case the company was asked for one by an external body. This is in contrast to what SMEs believe regarding the use of business plans. Almost all (91 percent) of the firms believe that SMEs cannot operate effectively without a business plan. Thus, SMEs report that business planning is an essential management tool for their survival and growth. But, they do not have the basic skills on how to prepare and use a business plan. Ninety nine percent of the companies responded that there was little effort, if any, on the part of the government to improve the planning skills of SMEs.

### *The Business Environment*

The respondents were asked to rate six sectors in the Botswana business environment (competition, entry barriers, customer base, supply base, market size, and political environment) using Likert type scale with anchors ranging from five (very high) to one (very low). The weighted averages of the scale (mean) were used to examine the respondents' view of the environment. Four of these environmental factors are among the driving forces of industry profitability developed by Michael Porter (1980). The respondents rated intensity of competition, bargaining power of buyers, bargaining power of suppliers and the attractiveness of the political/legal environment from high to very high. This, coupled with the low entry barrier in all industries in the economy, has made business planning essential. In the case of Botswana, high bargaining power of customers indicates the small size of the market relative to the number of companies in the industry. The high bargaining power of suppliers means that there are few and very limited number of suppliers relative to the number of buyers in the market.

### *The Business Planning Processes*

A business planning process is influenced by the level of formality of planning procedures, deductive or incremental approaches to planning, participation or communication of plans, and collection or documentation of plans and results. As shown in Table 1, informal planning as opposed to formal planning procedure was rated as most prevalent by both small and medium sized companies. The lowest emphasis was given by SMEs to the need for formalisation of the planning process and the need for SWOT analysis. Regarding the planning methodology, both small and medium enterprises prefer the incremental (from short term objectives to long term goals) approach as opposed to the deductive (from long term plans to short term objectives) approach. This suggests that SMEs derive their long-term plans by extrapolating from their short-term plans. The need for involving important staff in the planning process and communicating goals and objectives to others in the company are rated below average by both small and medium firms. Some important relationships between firm size and planning process are observed.

Table 1

**Degree of Emphasis on Selected Planning Process Indicators**

Items	Small		Medium		All Firms	
	Mean	S.D	Mean	S.D	Mean	S.D
Intuition/informality	4.31 *	0.74	4.02	0.71	4.22	0.70
Incremental	4.26*	0.91	3.93*	0.90	4.17	0.91
Documentation	2.81	0.97	3.10	1.02	2.89	0.98
Participative	2.62	0.91	3.17	0.96	2.78	0.92
Communicative	2.58	0.81	3.22	0.80	2.76	0.81
Deductive	2.26*	1.01	3.41*	0.98	2.59	1.00
SWOT Analysis	2.18*	1.12	3.18*	1.01	2.47	1.09
Formalization	2.11*	0.82	3.11*	0.79	2.40	0.81
SAMPLE SIZE	61		23		84	

\* Indicates statistically significant difference between small and medium enterprises at  $P \leq 0.05$

The degree of importance attached to the incremental approach by small sized firms is greater than that by medium sized firms. Significant differences are also observed between small and medium size firms in their use of the deductive approach. Small firm attach less importance to deductive approach than do medium sized firms. Medium sized companies rated strategic or long-term issues (formalization of plans, use of deductive approach, SWOT data analysis etc) higher than did smaller firms. This suggests a lack of active involvement of smaller firms in the business planning process.

Comparison of factors within each group also uncovered important findings. The gap between the incremental and deductive approaches, as perceived by small firms, is significant as is the gap between planning formalization and informal planning in the small size group. This suggests a perceptual gap between strategic orientation of SMEs and their short-term survival oriented planning activities. SMEs generally put much emphasis on informal planning process. SMEs also generally prefer incremental planning to deductive planning approach. However, medium sized firms place relatively greater emphasis on all planning factors than small firms.

Table 2 shows the descriptive statistics and correlation coefficients among the planning process indicators. There are statistically significant positive relationships among the measured variables as shown by the single asterisks (at  $P \leq 0.05$ ) and double asterisks (at  $P < 0.01$ ). It should be noted that out of the eight planning process indicators, only two are operational and short term planning oriented: Incremental and Informal planning. The other six are theoretically related to strategic management of SMEs. Deductive planning, for instance, is positively associated with participation, communication, SWOT

analysis, formalization and documentation. The other important finding is the existence of statistically significant and strong relationship between the need for participation of others in the planning process and communication, SWOT analysis, formalization and documentation. In contrast, informal planning has inverse relationships with the six strategic planning oriented planning process indicators. It is positively related with only the incremental planning variable.

Table 2

## Descriptive Statistics and Correlation On Planning Indicators

No.	Items	Mean	SD.	1	2	3	4	5	6	7	8
1	DEDUCTIV	2.59	1.00	1.00							
2	INCRMENT	4.22	0.91	-0.06	1.00						
3	PARTICIP	78	0.92	0.46**	0.03	1.00					
4	COMMUNIC	2.76	0.81	0.28**	0.15	0.72**	1.00				
5	SWOT ANAL	2.47	1.09	0.38**	0.14	0.66**	0.72**	1.00			
6	FORMALPL	2.40	0.81	0.37**	-0.25*	0.41**	0.32**	0.33**	1.00		
7	INFORMAL	4.22	0.70	-0.05	0.21	-0.16	-0.11	-0.08	-0.28	1.00	
8	DOCUMENT	2.89	0.98	0.27*	-0.06	0.41**	0.41**	0.48**	0.32**	-0.11	1.00

\*Indicates statistically significant relationships  $P \leq 0.05$ . \*\*Indicates statistically significant relationships at  $P \leq 0.01$ .

It appears that including company employees in the planning process, communicating plans to other important staff in the company, scanning the external and internal environment and documentation of plans and results all are associated with deductive and formal planning approach. Although it is difficult to conclude that deductive approaches and planning formalization are superior to incremental approaches an informal planning, they are expected to encourage strategic thinking and awareness among SMEs. If the objective of SMEs is to develop strategic thinking and awareness among organizational members, they must actively engage in the business planning process, attach some emphasis to the use of deductive planning approach with some degree of formalization of plans and use plans for both internal commitment and external validation purposes. Business plans that are originally developed and used for internal commitment can be effectively used for external validation purpose. However, it will be unrealistic to use business plans that are originally prepared for only legitimacy purpose as instrument of internal commitment. In sum, it is not the written document called the plan that is more important. It is the planning process employed to produce that document which promote strategic thinking and awareness.

### The Business Plan Contents

Respondents were asked to rate the level of emphasis they placed on each of the eleven planning content indicators by using a five-point Likert type scale ranging from five (very high) to one (very low). The results are shown in Table 3. SMEs in Botswana incorporate more short term and less strategic issues in their plans. Further, since external consultants prepare most business plans, the contents of the plan are not well integrated with the day-to-day operations of SMEs.

Table 3

#### Degree of Emphasis on Selected Planning Content Indicators

Items	Small		Medium		All Firms	
	Mean	S.D	Mean	S.D	Mean	S.D
Short term goals	4.51	0.61	4.22	1.02	4.42	0.73
Personnel Plan	4.39*	0.88	3.16*	0.91	4.03	0.89
Inventory	4.21 *	0.71	3.82*	0.70	4.09	0.71
Financial Plans	4.12*	0.60	3.29*	0.65	3.88	0.61
Sales plans	3.69	0.88	3.99	0.84	3.78	0.87
Production plans	3.68	0.72	4.19	0.92	3.82	0.78
Marketing Plan	2.52	0.88	4.31	0.58	3.03	0.79
Quantitative Targets	2.16	1.24	3.87	1.01	2.65	1.17
Mission Statement	2.11*	1.18	4.13*	0.99	2.69	1.13
Long term goals	2.08*	1.08	3.27*	0.89	2.42	1.03
Scanning Data	2.02*	1.06	3.06*	0.98	2.32	1.04
SAMPLE SIZE	62		24		86	

\*Indicates statistically significant differences between small and medium firms at  $P \leq 0.05$ .

The preparation and establishment of short-term goals for a period of less than 12 months received the highest emphasis by both small and medium enterprises. The least emphasis is paid to long-term strategic goals. All firms put emphasis on short term operational planning related items such as personnel, inventory, sales and production plans. The use of quantitative targets and development of company mission statement have received little emphasis. Moreover, the need to incorporate the results of environmental scanning in the long term or short-term plan is seen by firms as least important. There is an important relationship between firm size and level of emphasis placed on the contents of the business plans. Small firms put greater emphasis on the need for short-term goals, personnel plans, inventory plans, and financial plans than do medium firms. Medium sized firms put more emphasis on strategic issues such as mission, scanning, long-term goals and quantitative targets.



## Limitations and Implications

From the small sample, one might reasonably conclude that many SMEs do not actively engage in the business planning process and that the contents of most business plans are dominated by short-term operational issues. Further, adoption and consistent use of business planning in both small and medium enterprises were not widespread. However, this conclusion remains tentative in the absence of a larger industry focused sample. This study has focused on the process and contents of planning in an attempt to distinguish the degree of planning among SMEs in different industries. Extensions of this research should also include managerial and organisational characteristics as well as the implementation of plans.

Planning processes in Botswana's SMEs appear episodic and disjointed. An important question concerns whether discernible patterns exist in the sequencing of planning activities. While a full exploration of that question is beyond the scope of this paper, the study offers three research implications. First, research on planning process and contents should be longitudinal rather than cross-sectional. Longitudinal research will allow researchers to determine factors that generate I commitment and legitimacy pressures. Second the need for using business plans for the purpose of commitment and legitimacy (external validation) is likely to be dominant during different stages in an organization's life cycle. SMEs may use their business plans for external validation or legitimacy early in their lives if they are to survive since most stakeholders require formalized systems and statements of organizational goals. Future research should therefore consider the planning practices of SMEs at different stages in their life cycle. Third, growth and decline also affect the need for planning and planning formality. Studies found positive relationship between growth indicators and formal planning (Hopkins and Hopkins 1997). It is therefore advisable for future researchers to include stage of development of firms in their study of business planning practices. Fourth, the form of ownership might also affect the planning behavior of SMEs. Sole proprietorship and partnerships companies, for instance, may not experience much external pressure for formal planning; which is the case for most corporations. Fifth, whether a company is managed by the owners(s) or employed professional managers might also affect its planning practices. Thus, future studies should develop research designs, methodologies and measurement instruments that address issues.

## Conclusions and Recommendations.

Since the origin of the field of strategic management, researchers have been concerned with the attributes and impact of business planning. This concern has significantly increased with the expansion of research in strategic planning. It is a fundamental tenet of strategic management and organization theory that firms change with their environments. With the weakening of trade barriers and

globalization of competition, the business environment in developing economies is changing, and many firms have paid a high price for intransigence in the face of change. This study has identified that only in few cases in Botswana is actual business planning an active and continuous process. In fact SMEs frequently fail to extract as much benefits from the planning process since they put greater emphasis on business plans than planning. Business plans are products of the business planning process and hence it is the process that promotes strategic thinking, not the products called plans. SMEs owner-managers must fully engage in the planning process. The planning process calls for engaging a broader group of organizational members, not only just top management, in a business planning dialogue in which hypothetical futures are generated and tested. Such a process would rely on the development of strategic thinking skills on the part of managers. If the desired managerial behaviour SMEs are attempting to produce is more strategic thinking and awareness, then, some upgrading of the perceived importance and critical role of business planning process is desired. Continuity of the planning process and the inseparability of the process from its execution are critical factors.

Empirical evidence also supports the proposition that common relationship between firm size and planning holds for SMEs in Botswana. Larger firms are more involved in business planning process and use more sophisticated planning procedures than do smaller firms. Larger firms, more than smaller firms, were also found to use business plans primarily for the purpose of guiding their operation rather than for external validation and legitimacy. Formal planning is useful and necessary for external validation or legitimacy, and essential for resource acquisition. However, SMEs should not prepare plans when only outside investors or creditors required a formal plan before authorizing a loan or grant. SMEs should therefore be encouraged to develop their own business plans with the help of external advisors or consultants. All agencies, governmental or non-governmental, that are involved in the promotion of the development of SMEs should make training in business planning part of their support programme. Workshops, conferences and seminars should be organized to show SMEs the practical benefits of preparing and working with business plans.

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