

Planning In Small Businesses: The Perspectives Of Owner Managers

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ABSTRACT

Effective planning of businesses by owner managers is a pre-requisite for high performance and/or profitability of their ventures. The importance of business planning in small businesses therefore cannot be over-emphasised. Thus the current study sought to investigate the attitude of owner managers to business planning. Data were collected from sixty-one owner managers in Accra and Kumasi, the capital city and the second largest city in Ghana respectively. Interviews and focus group discussions were the main data collection tools. It was found out that owner managers have a positive attitude towards business planning as majority of them had business plans. They also had an understanding of the benefits of business planning. However, the study further revealed that almost all the owner managers had set aside their business plans in the running of their ventures mainly due to the volatility of the socio-economic environment of Ghana. In other words, for effective planning of businesses, owner managers should be able to look into the future with an appreciable level of predictability. However, this is not the case with the socio-economic environment of Ghana. Thus, owner managers have to relegate to the background their business plans in the running of their businesses.

KEYWORDS: Owner Managers, Business Plans, Small Business, Planning, Entrepreneurs

INTRODUCTION

Business organisations have objectives that they seek to achieve. These objectives may be short-term or long-term. The achievement of these objectives is vitally important to the survival of the business. This is true not only for large businesses but also small and medium enterprises (SMEs). Thus the assertion that SMEs do not need

formal business plans in place cannot be wholly accepted. This is explained by the fact that both large businesses and SMEs do have objectives and/or goals to achieve. They all seek to survive. Survival is even more important to SMEs that are making every effort to grow and become more competitive. Planning therefore is important to businesses, both large and small (Orser, Hogarth-Scott & Riding, 2000; Sanberg, Robinson & Pearce, 2001).

The importance of business plans lies in the fact that they convey the goals of organisations and the strategies needed to meet them. It brings to the fore the potential problems business organisations are likely to encounter and suggest ways to circumvent them. Again, business planning is important in that it identifies the resources needed to take advantage of the opportunities available at the market place. Moreover business plans show organisations their weaknesses and the strategies needed to manage effectively and efficiently the threats facing them (Brinkmann, 2002).

All these factors discussed above point to the fact that, in this competitive environment, it will be difficult for businesses and small businesses for that matter to survive without proper planning. Small businesses' failure has been attributed to lack of proper planning (Rue & Ibrahim, 1998). This poor business planning has led to the failure of most SMEs in their first year in Sub-Saharan Africa (Abor, 2006). Despite the high level of failure among SMEs, very little research has been done on business planning of SMEs in Ghana and in particular in the area of owner managers' attitude. Thus this study seeks to investigate the attitude of owner managers in Ghana towards business planning. The next section explores the research objectives and questions of the study.

RESEARCH OBJECTIVES AND QUESTIONS

As stated earlier, the main objective of the current study is to investigate the attitude of owner managers in Ghana to planning of their businesses. Specifically, the study sought to identify the preparedness of owner managers to planning of their businesses and the benefits they seek from business planning. Moreover the study explores the challenges owner managers face in implementing their plans. Based on the research objectives mentioned above, the study sought to find answers to the following: How prepared are owners managers to plan their businesses and what benefits do owner managers in Ghana stand to gain in developing business plans? Plans are not just to be designed; there is the need for implementation of the plans. Thus another question that needed to be answered was; what are the challenges owner managers face in implementing their plans?

RESEARCH METHODS

The study selected the two cities of Accra and Kumasi in Ghana as the study areas. The population consisted of all registered small businesses in these two cities that fell within the definition of small businesses provided by the National Board for Small Scale Industries in Ghana (NBSSI). Besides, the study focused on literate owner

managers who are likely to plan their businesses. Thus, the sampling technique adopted in the study was purposive random sampling (Patton, 2002). In all, sixty-one small business owners were selected for the study. The study is mainly qualitative. Data collection methods were face-to-face interview with respondents and focus group discussions. The interviews revolved around a list of topics on an interview guide for the respondents to express their opinion. In a sense, the study followed what Lofland and Lofland (1994) refer to as 'guided conversation'. Following Creswell (1998), the objective here was to elicit rich, detailed material about variety of views concerning the attitude of owner managers in Ghana towards business planning. It was also to allow room for the respondents to raise topics of interest to them (Silverman 1993; Morgan 1997; Yin 1989) and to provide their perspectives on business planning of SMEs in Ghana. In addition to note taking, the interviews were tape-recorded. The study used Nvivo software to thematically analyse the empirical evidence. This allowed greater analytical depth and detailed interpretation of interviewees' views of 'what is going on' rather than the analyst's view (Stake, 1995).

LITERATURE REVIEW

Based on the research objectives and questions discussed earlier, this section is dedicated to exploring the existing literature of business planning in SMEs along the following lines: First is an overview of business planning in SMEs. The second area of review is the adherence of owner managers to business plans. The third is the benefits of business plans to owner managers. Finally, the literature focuses on the challenges of implementing business plans by owner managers.

PLANNING IN SMALL AND MEDIUM ENTERPRISES (SMEs)

There is evidence to suggest that strategic planning has a direct relationship with increased firm performance (Orser, Hogarth-Scott & Riding, 2000; Sanberg, Robinson & Pearce, 2001). Thus, one of the most important documents that entrepreneurs and small business owners cannot do without is the business plan. In other words, business plans are vitally important for small business owners and entrepreneurs (Lambing & Kuehl, 2007). Every business will have some form of 'strategic plan'. In small businesses, this may be the general thoughts of the manager, but in other cases the strategic plan will consist of a formal document which has been decided upon by key decision-makers within the organisation (Brailsford, 1995).

Different authors and/or researchers have given varying interpretations of business plans. Hisrich, Peters and Shepherd (2009, p. 175) describe a business plan as "a written document prepared by the entrepreneur that describes all the relevant external and internal elements involved in starting a business". This definition purports to limit the writing and use of business plans to new businesses or start-ups. This is akin to the perspectives of Zimmerer and Scarborough (2006) who are of the view that a business plan is a written outline of the entrepreneur's proposed business or venture, detailing its financial and operational activities, its marketing opportunities and strategy and its managers' skills and abilities.

Even though business planning has been linked to new businesses as depicted by the definitions given earlier, there is evidence to suggest that business plans may be written by existing small businesses as and when necessary. For example, a business plan has been described by Lambing and Kuehl (2007, p. 143) as, “a comprehensive document that helps an entrepreneur analyse the market and plan a business strategy”. A business plan may also be defined as a written document that identifies the goals and objectives of business organisations and outlines how the organisations plan to achieve the goals and objectives (Stokes & Wilson, 2006).

Both start-ups and existing businesses need business plans. Existing businesses need plans to ensure that future growth is properly managed. Business plans may also be developed by start-ups so that some of the costly mistakes are reduced if not completely eliminated (Hisrich, Peters & Shepherd, 2009; Zimmerer & Scarborough, 2006; Lambing & Kuehl, 2007).

Planning plays crucial role in the developments of SMES in all sphere of economic development of nations. It is at this backdrop that SMEs need to effectively plan all facets of their operation formally. Indeed, formal plans or cost controls are often only provided on an irregular basis and planning instruments are usually only used by a small number of individuals and developed rather intuitively (Brinkmann, 2002). SMEs in their quest to survive and compete favourably in the competitive business environment must in all cost try to be circumspect in their implementation strategies as they are competing with larger companies. In contrast to larger companies, SMEs normally maintain a lower level of resources, have more limited access to human, financial and customer capital, and lack a well-developed administration. Thus, the application of formal planning instruments is often missing, especially up to a certain ‘critical size’ (Karagozolu & Lindell, 1998).

Strategic planning is key to the sustainability of SMEs in the long run as it tries to prepare SMEs for future exigencies and accounts for business dynamics and complexity. According to Kropfberger (1986), strategic planning by SMEs specifies the basic conditions as well as the scope for future business activities and is thus a key instrument for the overall strategic management. In SMEs there are various aspects that planning is required for effective growth. Berry (1998) listed five types of planning of varying depth that can be conceptualized: (1) simple financial plans, (2) planning based on forecasts, (3) externally oriented planning (the entrepreneur begins to think strategically), (4) pro-active planning of the corporate future (instead of reacting to market-based changes), and (5) strategic planning as a systematic instrument of strategic management.

THE BENEFITS OF BUSINESS PLANNING IN SMES

The importance of the business plan lies in the fact that it helps entrepreneurs and small businesses to develop their business concepts and show bankers and other interested parties such as investors that the entrepreneur has carefully thought through the business idea (Lambing & Kuehl, 2007). Stoke and Wilson (2006, p.180) contributes to this argument by indicating that the first and foremost document that is prepared by the entrepreneur and small business owner is the business plan. The

importance of this lies in the fact that it is a document that is produced for the “bank manager, investor, or venture capital fund manager, in order to raise money”.

Touching on the relevance or importance of business planning, Hisrich, Peters and Shepherd (2009) suggest that the business plan is invaluable to the entrepreneur, potential investors and even the new personnel who are trying to familiarise themselves with the venture, its goals and objectives. The importance of the business plan to these stakeholders is that it helps in the determination of the viability of the venture in a designated market. In addition, it provides guidance to the entrepreneur in the organisation of his or her planning activities. Moreover, it serves as an important tool for securing finance. It is also a way of telling interested parties that the entrepreneur or the small business owner is the right person to manage the business. This is explained by the fact that the experience, education and other personality characteristics are clearly identified in the plan (Lambing & Kuehl, 2007).

Business plans for small businesses serve two purposes. The first and more important is that a business plan serves as a guide for an organisation’s operations by charting its future course of actions and developing the strategy for following it. Second, the business plan serves to attract lenders and investors (Zimmerer & Scarborough, 2006). Contributing to the issues of the business plan serving as a guide for small businesses; Brailsford (1995) posits that the aim of business plans is the provision of direction and objectives for the small business. This he explained by indicating that the strategic plan more often than not revolves around the mission statement of the small business. He went on to indicate that the strategic plan for the small business aims at putting in place the rights tools, methods and processes that identify and achieve the long-term goals of the business.

SMEs derive significant benefits from effective planning. For SMEs to grow and succeed in the competitive business environment, planning must be at the heart of owner managers. Norman and Thomas (2003) argue that businesses tend to have more chance to succeed when there is strategic planning in the organization. Without a defined planning strategy, a business has no sustainable basis for creating and maintaining a competitive edge in the market place. The implication is that, strategic planning can lead to increase in performance with its concomitant positive effect of overall business success.

It is also important to note that, failures of most SMEs are due to their inability to plan, making them vulnerable to competitive threats. Perhaps most importantly, SMEs that engage in business planning are less likely to be those that fail (Gaskill, et al 1993; Perry 2001). Studies have also shown that the high failure rate among small firms, particularly among start-ups, can be attributed to the lack of formal business planning (Castragiovanni, 1996). According to Nobel (1999), the absence of effective business planning is the major barrier to achieving expected or estimated performance.

REASONS WHY OWNER MANAGERS DO NOT PLAN

Despite the importance of business plans to small business owners and entrepreneurs, some small businesses; according to Stoke and Wilson (2006), tend not to write or

produce any business plan. In most small businesses, there may be no formal documentation but there will be implied plans and objectives of the small business owner (Brailsford, 1995). Many reasons account for why some small businesses do not produce any formal business plans. One reason is that some of the small businesses and entrepreneurs do not have external funding requirement. This means that some of the small businesses limit the use of business plans to raising money from the bank and other sources of finance. Another reason is that a lot of the small business owners and entrepreneurs do not have an understanding of the process or benefits of business planning. Moreover, some small business owners have the belief that strategic business planning is the exclusive preserve of large organisation and big business resources and not necessary for small firms or businesses (Stoke & Wilson, 2006).

Another reason given is that some of the entrepreneurs and small business owners think that their time would be better spent pushing the venture forward. Entrepreneurs and small business owners most of the time claim that they already know what is in the plan. Moreover, the objection of entrepreneurs and small business owners to the writing of formal business plans lies in the fact that developing a business plan demands resource commitment. For example, the entrepreneur has to spend time, energy and more often than not financial resources. Other reasons for not planning include lack of time, lack of specialised expertise, inadequate knowledge of the planning process, environmental uncertainties and internal implementation barriers (Wickham, 2007; Robinson & Pearce, 1984; Yusuf & Saffu, 2005; O'Regon & Ghobadian 2002). In recent times, however, small business owners do not have any excuse for not planning their businesses. For example, the issue of not having specialised expertise is neither here nor here since there are countless consultants available to help small businesses prepare their plans. The only challenge here, however, is the charges involved. Some of these consultants charge exorbitant fees that put a lot of small businesses off.

Many decision-makers in SMEs are convinced that real entrepreneurs do not plan. Instead, it is assumed that they use their limited time resources more effectively for operational or sales activities. Additionally, formal planning is often regarded as limited to large enterprises and thus not transferable to the requirements of the fast-moving and flexibly-structured SMEs.

Accordingly, SME owner-managers have been accused of being “strategically myopic” and lacking the “long-term vision as to where their company is headed” (Mazzarol 2004, p.1). The concern is that by neglecting strategic planning, SMEs may not achieve their full performance and growth potentials, and their survival could be placed at risk (Berry, 1998).

Because formal planning in SMEs are quite complex, many owner managers do not plan. Armstrong (1982) advises that formal strategic planning is an explicit process for identifying the firm’s long term objectives, procedures for generating and evaluating alternative strategies and a system for monitoring the results of the plan implemented. He continues to mention that a systematic procedure is necessary to gain commitment of those affected by the strategies implemented.

There are also many uncertainties confronting owner manager preventing their efforts to plan. However, Lindsay and Rue (1980) point out that, organizations have always attempted to counter uncertainty with greater planning efforts. There is also inconsistency in business planning and business performance making it difficult for many owner managers to plan. The main reason why the relationship between strategic planning and business performance is still inconsistent is due to the use of different measures of business performance. Kaplan and Norton (1992) suggest the use of the balanced scorecard (BSC) to comprehensively determine the business performance of firms. BSC measures business performance across four different perspectives: the financial perspective, the customer perspective, the internal business process perspective, and the learning and growth perspective. With the use of four perspectives, the BSC captures both leading and lagging performance measures, thereby providing a more balanced view of business performance.

Planning in SMEs does not always take place in a highly sophisticated or formal way. It often occurs (at least sub- or unconsciously) as a sign of strategic thinking (Ohmae, 1982). In this respect, Bracker and Pearson (1986) describe SMEs' planning activities as ranging from an unstructured and informal approach (unstructured planning, intuitive planning) to a more structured and formal approach (structured operational planning, structured strategic planning). Therefore, it remains to be seen whether SMEs do not plan 'strategically' at all or whether they just do not plan 'in a formal way'. Along these lines, Welter (2003) states that it is the quality of planning rather than strategic planning per se that plays an important role. Indeed, planning in SMEs seems to be rather unstructured, sporadic, incremental and often not formalized. This suggests a rather systemic type of thinking by the entrepreneur/entrepreneurial team which might be imprinted on the organization for years to come.

In addition, it seems reasonable to assume that each form of planning, whether it is conscious or unconscious, formal or informal, positively affects entrepreneurial success. The implementation of strategic planning, therefore, seems to be favourable independent of company size, although a positive relationship between increasing company size and the implementation of (structured and formalized) instruments of strategic management appears to exist. This finding is likely to be correlated with - if not caused by - the increasing need to reduce uncertainty about an enterprise's role in its environment and the growing ability to cope with matters in a 'mechanistic' fashion. Building on these arguments, it can be assumed that people in most SMEs think strategically. A conscious or formal strategic process, however, mostly takes place in the head of a very limited number of employees. Due to the well-accepted view that strategies limit an SME's scope of activity too much, thereby reducing its flexibility, many SMEs are still lacking written strategic plans. In addition, there are other reasons that may explain why SMEs refuse to engage in formal strategic planning, such as insufficient knowledge, distrust, rejection of external assistance, tradition-based thinking, fear of radical change, high costs and lack of time or management overload (Scharpe, 1992; Robinson & Pearce, 1984). In this regard, Gibb and Scott (1985) are of the opinion that strategic awareness and the involvement of the entrepreneur offsets the lack of formal strategic planning as an output of

strategic management. The degree of an entrepreneur's strategic orientation thus seems to be a key factor for the strategic focus of the enterprise (Mazzarol, 2004).

CHALLENGES OF DEVELOPING AND IMPLEMENTING BUSINESS PLAN IN SMEs

Robinson and Pearce (1984) suggested that a lack of time, a lack of specialized expertise, inadequate knowledge of the planning processes, or a reluctance to share strategic plans with employees and external consultants are detrimental to and compromise strategic planning in small business.

There are various unique characteristics that entail both problems and opportunities for strategy development in SMEs (Füglistaller et al., 2003). Compared to large companies, SMEs tend to offer a more limited range of products on a more limited number of markets and use market penetration and product development strategies instead of market development or diversification strategies. Moreover, since SMEs mainly operate in a single or a limited number of markets with a limited number of products or services - often even in a market niche - they usually cannot afford central service departments that are able to conduct complex market analyses and studies (Johnson & Scholes, 1997). In addition, they usually have a lower level of resources as well as lower access to human and financial capital. As a result, particularly up to a certain 'critical size', the application of formal planning mechanisms is often missing (Karagozoglu&Lindell, 1998).

The most important success factor for a small business owner is time. Consequently, it has a strong influence on the result of any 'activity-optimizing' considerations of the entrepreneur (Delmar & Shane, 2003). Furthermore, the process of strategic decision-making in SMEs is often based on experience, intuition or simply on guessing (Welter, 2003). It has been observed that increased rates of external change tend to increase the flexibility of planning practices. However, Lindsay and Rue (1980) point out that organizations have always attempted to counter uncertainty with greater planning efforts.

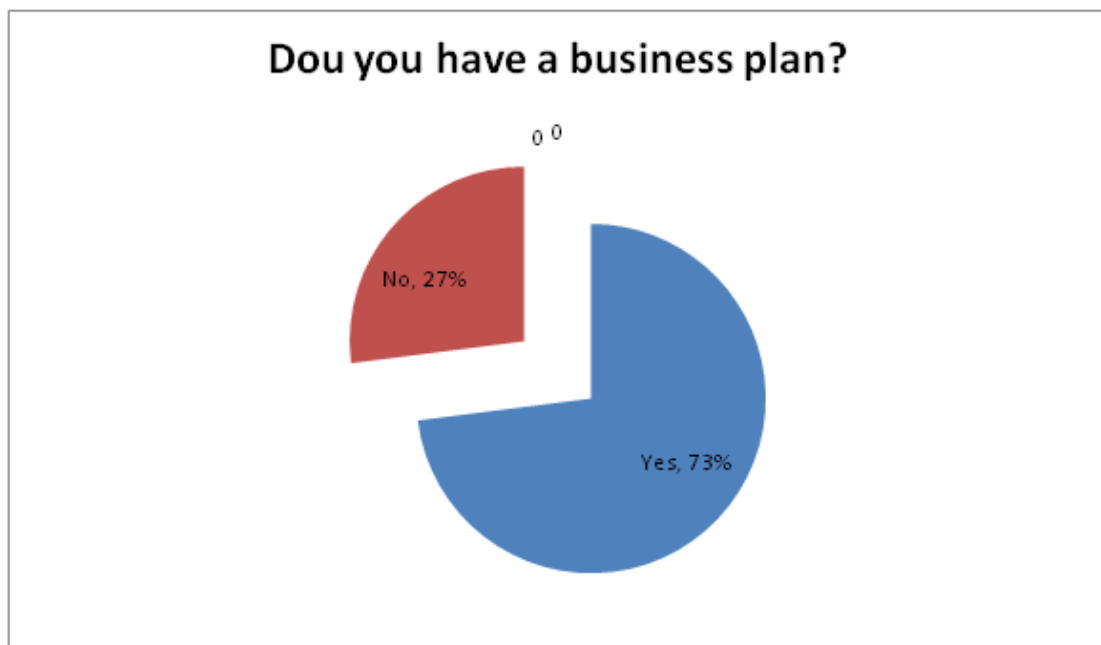
While many new SMEs start each year, nearly 50% cease to exist in the first 3 years. Though it is assumed that all SMEs desire growth, only 40% survive beyond 10 years. Majority of the firms do not think of long-term business strategy but focus only on survival. They think of change only when the business begins to fail as a result of not keeping track of the changing market scenario. The firms that survive and grow are the ones that have the ability to take risks and respond to the changing circumstances.

RESULTS AND DISCUSSION

This section deals with the results of the study and discusses the findings. The section explores the preparedness of small business owners to planning of their businesses; the management of small businesses according to plan, the benefits of planning to small businesses and the challenges owner managers face in implementing their business plans.

The preparedness of owner managers to business planning

A business plan is very important in many ways for all forms of organisations particularly the small business. Small businesses cannot build their capacities for growth and development without effective planning of their businesses (Lambing &Kuehl, 2007). With regards to the preparedness of owner managers to planning, the study found out that majority of the small business owners had business plans and most of them had written the plans by themselves. It was realised that the small business owners had learnt how to write the plans through formal education; the attendance of training programmes organised by enterprise support organisations, reading books on business plans and downloading of templates from the internet. The number of owner managers who had business plans is high and is an indication that the owner managers' preparedness to business planning is high. This must have been necessitated by the benefits these owner managers derive from business planning as evidence suggest that business planning has a positive impact on the growth and development of small businesses (Hisrich, Peters and Shepherd, 2009; Lambing &Kuehl, 2007).



Source: *Source: Author's field data, April-June, 2010.*

Benefits of planning to small businesses

Businesses do not just have plans. In other words, businesses do not just develop plans for the sake of it. There are countless reasons why small businesses develop plans (Orser, Hogarth-Scott & Riding, 2000; Sanberg, Robinson & Pearce, 2001). The current study inquired about the benefits of business plans to small businesses. The first and major benefit that was identified was that of keeping the business focused for the achievement of objectives. One of the owner managers indicated that:

“Business plan in general is very beneficial to this business in the sense that it directs the entire company. It also motivates us to achieve our stated objectives”. Another owner manager said that: *“we developed business plan because it helps us to structure the company’s future and to stick to achieving the company’s objectives”.*

Small businesses must focus on achieving their objectives. These stated objectives, as part of the plan are very important in motivating these owner managers for higher performance. Without these plans, small businesses will lose focus and more importantly they will not be able to measure their performance. A statement from one of the respondents supports this:

“It serves as the official blue print as to how and when the firm was established and to monitor growth against mission and objectives”.

Another area benefit of business plans to these small businesses is that it helps owner managers to access funds from the banks and other financial institutions with ease since these banks most of the time require small businesses to prepare such formal documents (Zimmerer& Scarborough, 2006; Stoke & Wilson, 2006). In describing the benefits of business plans to small businesses, one respondent mentioned that:

‘One benefits that the business plan has given me is that it has helped to raise funds for the business from financial institutions. Without it I might not have received the funds’.

The reason many small businesses have not been able to secure funds is that many of them do not provide the needed information; particularly businesses plans which contain almost all the important information needed by the funding agents (Zimmerer& Scarborough, 2006).

Every business has the future to grapple with. This has become very important because of the volatility of the current business environment and the unpredictability of the future and customer behaviour for that matter (Kotler& Keller 2012). Thus strategies must be put in place to manage effectively the uncertainty of tomorrow’s business environment. This calls for effective planning in businesses and small businesses for that matter. This is corroborated by the findings of the current study. Some of the owner managers posited that planning in their businesses has actually helped them to manage the risk the future business environment presents. One of the respondents puts it in this way:

“By having a business plan, it gives the business direction and predicts future risks and ways to overcome them”.

Decisions are part and parcel of the life of every business. Owner managers are always making decision regarding so many things such as which products to come out with, which pricing strategy to adopt, which distribution system to apply and which promotional strategy and/or media to use (Kotler& Keller, 2012). All these areas of decision-making are very important in ensuring the survival and profitability of the small business. However, decisions are not made out of vacuum. Effective decisions are made with a strategic direction in mind. In other words, business plans are very crucial in aiding decision-making. Thus, in addition to some of the benefits of business plans outlined above, the study found out that one other benefit of

business plans is that it helps owner managers in making effective decision. One owner manager posited that:

“The plan serves as a platform on which all decisions and actions are followed. The plans serve as a medium to achieve laid down goals and objectives”.

The Challenges of implementing business plans in small businesses

It has been posited that a lost of small business owners do not have plans or they are not prepared to run their businesses according to a prepared documents we call business plan(Wilson, 2006; Brailsford, 1995).

This may be due to several factors and prominent among them as far as the current study is concerned is difficulty in implementing business plans. This is more pronounced in the developing world and Ghana for that matter where a lot of factors militate against effective implementation of business plans by owner managers.

The study confirmed that even though findings suggest that owner managers have good attitude towards planning, a lot of the owner managers are faced with challenges in their attempt to implement their plans. This is evident in the following comments by some of the owner managers:

“Having a plan or getting it written is not a very difficult issue for me. This is because with the little knowledge I have, I can put something on paper. I can even pay someone to prepare one for me which may not be very expensive. The problem, however, is that of implementation. The situation in Ghana is pathetic because things do change just like that. The economic indicators are not reliable. As things change you have to change your plan”

“Plans are good, but for us here in Ghana, they are just paper work, in that you cannot follow them for even a month without having to change things to suit the changes in the environment. Changes in exchange rate, prices of inputs, demand for products and the like do not favour the strictest implementation of business plans. Most of the time, they have to be overlooked.

“I have a business plan but I cannot follow it. It has become just paperwork. It is almost impossible to follow is because of the unpredictability of the business environment in Ghana”.

Conclusion

The findings of the study indicate that the owner managers have good attitude towards business planning. This is explained by the fact that majority of the respondents indicated that they had business plans. This shows that the owner managers are willing to run their businesses through effective planning. This is good for high performance of businesses. The study has also established that owner managers have an understanding of the benefits of business planning. However, almost al the owner managers are not going by their business plans. The reason being that the socio-economic environment of Ghana does not favour running small businesses according to plan. The socio-economic environment of the country is so volatile that it is very difficult if not impossible to strictly follow business plans.

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