



# Antecedents of Strategic Planning of Small and Medium-sized Enterprises in Malaysia: The Influence of Ownership Motivations and Environmental Uncertainty

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## ABSTRACT

The main purpose of this study is to empirically determine the major forces influencing the degree of strategic planning adopted by small and medium enterprises (SMEs) in Malaysia. In particular, the study critically examines the influences that ownership motivation and environmental uncertainty could be significant antecedents in determining strategic planning practice among the SMEs sector. After the extend literatures, this study developed a positivist paradigm using quantitative methods. Data were collected from the portal set up by Small and Medium Industries Development Corporation which in turn is the secretariat to the National SME Development Council using multiple regressions to analyses. Both ownership motivation and environmental uncertainty are found to influence significantly the level of strategic planning exhibited within the SMEs surveyed. The policy maker and academics can make use of this study as a contribution to literature. Necessary recommendation and recommendation for future studies were discussed.

**Keywords:** Ownership Motivation, Environmental Uncertainty, Strategic Planning Process

**JEL Classifications:** M1, L0

## 1. INTRODUCTION

The small and medium-sized enterprises (SMEs) sector reportedly accounts for over 99% of U.S. employer firms and provide for 49.2 of private sector employment in the United States (U.S. Small Business Administration, 2001). In Malaysia, the SME sector contributes to 57% of total employment of the country and represents a total of 33.1% of the gross domestic product (GDP) of Malaysia (Hashim, 2015). The sector also accounts for 97.3% of all total business establishments in the country (Hashim, 2015).

Notwithstanding the increasing importance of the SMEs, the sector is very much plagued by relatively high failure rate (Watson, 2003; Ahmad and Seet, 2009). Thus, more concerted efforts are warranted to comprehend why some SMEs perform better than others.

As part of the strategy to enhance the sector, more effort and resources need to be diverted to comprehend why some SMEs

perform better than others. Many studies have pointed to the fact that the adoption of strategic planning could be contributing factor to SMEs' continued performance in business growth (Mohamad et al., 2012; Amoah-Mensah, 2013; Dibrell et al., 2014; Yego, 2015; Kinyua and Ali, 2016).

In the case of Malaysia, SMEs represents 99.2% of all total business establishments and accounts for 65.1% of the total workforce in Malaysia (Leong, 2001). However, this sector only accounts for 47.3% of the GDP, which is significantly lower than other nations like South Korea (50%), Japan (55.3%), Germany (57%) and China (60%), according to a report from National Economy Action Council of Malaysia (Leong, 2001). Also, each year about 37,000 new SME businesses have started for the past 5 years where failure rate is high at about 60% within the first 5 years (Omar, 2006).

It is indeed worthwhile to examine the factors that could actually promote or drive the use of strategic planning within the SME

sector. In the context of Malaysia, there is still very limited research being done on the applicability of management theories towards the success of SMEs (Hashim and Ahmad, 2005; Mokhtar et al., 2014). The proposed research model would be able to garner new insights on the practice of strategic planning among SMEs in Malaysia. More interestingly, the study could provide interesting research insights over how the characteristics of the single most important stakeholder in the success of the SME, i.e. the owner could impact on the use of strategic planning. It is also entirely justifiable to contribute to the existing literature by examining how environmental uncertainty could affect the degree of strategic planning among Malaysian SMEs.

While the growth of the SME has led to an increase in research interest in this sector of the economy, it could be observed that studies in Malaysian SMEs are arguably still very fragmented and limited in scope (Hashim and Ahmad, 2005). This study thus would complement in some ways to the government continued efforts in promoting the competitiveness of the SME sector since planning have shown to have an influence on the success of the SMEs. This is crucial, given the fact that the development of a strong SME sector is instrumental in building a resilient economy and in promoting economic growth and employment for a developing nation such as Malaysia. Thus, in summary by reviewing the major antecedents of ownership motivations and environmental uncertainty, more research insights could be achieved in comprehending what drives this sector to engage planning in a strategic sense.

## 2. LITERATURE REVIEW

### 2.1. Ownership Motivation and Adoption of Strategic Planning

SMEs frequently are found to be not participative in strategic planning due to many limitations such as a scarcity of time, skills, resources and the likelihood to centralize the process of decision making (Robinson and Pearce, 1984; Mulford et al., 1988; Crusoe, 2000). While earlier researches do help to illuminate us on logical reasons for the lack of involvement of this sector in strategic planning, it is obvious to deduce that the focuses of these studies are mainly on the characteristics of the firm itself. Emphasizing on the firm exclusively may lead to ignoring the crucial consideration of the single most important party influencing the strategic process itself namely the owner-managers of the SMEs. More studies should be implemented in investigating the individual characteristics of the owner manager of the firms in this sector. Important consideration at the individual level of course will include the owner's motivations. Wang et al. (2006) review the influences of ownership motivations as a powerful influence on the adoption of strategic planning within the SME sector.

Ownership motivation often being defined as either pulls or push drivers (Buttner and Moore, 1997; Brodie and Stanworth, 1998; Cooper and Dunkleberg, 1986). Pull drivers deals mainly with the owner manager's internal objective or vision to start a business, achieve greater control and be successful as an entrepreneur (Buttner and Moore, 1997; Brodie and Stanworth, 1998; Cooper and Dunkleberg, 1986). However, push drivers are commonly negative factors driving business venture initiation such as being

retrenched, low pay, low job satisfaction, etc. (Buttner and Moore, 1997; Currant and Blackburn, 2001; Wang et al., 2006). The study hypothesizes that those SMEs driven more by pull factors such as financial objectives and personal goals are more likely to engage in strategic planning, while those driven mainly by push factors such as retrenchment or flexible work arrangements have less incentive to plan strategically.

While these prior studies have provided us with valid reasons for explaining why strategic planning is not prevalent within this sector, it can be observed that these research focuses primarily on the situational factors of the firm itself. Over focusing on the firm may exclude an important valid consideration of the single most important person dictating strategy itself that is the owner-managers of the SMEs. It is an entirely valid proposition that in order to better comprehend why SMEs do not plan, studies should be undertaken in examining the personal characteristics of the owner manager of these establishments such as leadership styles and owner's motivations. While, it is indeed a valid proposition that ownership characteristics do influence company strategies, Kotey and Meredith (1997) have observed that there is still quite limited empirical studies in this area. Existing literature however do still provide some interesting evidence in support of how ownership factors could in a very large extent influences strategic development. For instance, Kotey and Meredith (1997) have conducted a study examining the relationship between owner/manager characteristics, corporate strategies and ultimately business performance. The study involves the entire population of small business furniture manufacturing industry in New South Wales in Australia. The study indicates that personal value systems of the owner-managers, the corporate strategies employed and the performances of their SMEs and significantly related. Owner-managers which achieves above average performance tend to be entrepreneurial in nature and reportedly employed proactive strategies. On the contrast, owner-managers that performed below average typically hold conservative values and employed reactive strategies.

Moog et al. (2011) using a total of six case studies from Germany attempt to investigate how personal characteristics influences strategies orientation of family owned businesses. Their study concludes that strategic decision making is primarily centered in the hands of selected few family members and that the personal vision and mission of these owners influences strategic choice. Wang et al. (2006) argue that business ownership motivations represent a strong factor that explains why a majority of small firms do not plan strategically. The study suggests that many SMEs do not engage in strategic planning mainly due to their operators' desire to remain on a small scale. On the other hand, growth driven operators tend to engage in strategic planning. Charles et al. (2015) conducted a study on how personal, environmental and firm characteristics influences the strategic modes employed by SMEs and its bearing on performance in this sector. The study suggests that SMEs typically engage in deliberate, emergent and reactive styled strategies. The study also posits that the lack of formalization of the strategic process lead to endemic failure in this sector. The above studies present a strong case on how ownership characteristics can have a positive

influence on the strategic planning of SMEs. It could be observed with pertinent established literature, that owner managers are driven by both push and pull factors and that these motivations could potentially influence strategic decision making. Thus, this study suggests that owner managers that are driven by push factors are less likely to engage in strategic planning as the drive for business growth seem less important. On the other hand, those motivated by pull factors are hypothesized to engage greater level of strategic planning as the drive for business success is much higher in these owner managers.

## 2.2. Environment Uncertainty and Strategic Planning

Environment uncertainty remains an important variable affecting the success and failure of firms operating within the SME sector. Environment uncertainty is an important consideration given that the business environment inflicts higher level of uncertainty on SMEs compared to large firms (Agbim et al., 2014; Ghosh and Chan, 2014; Chin et al., 2014). For instance, Cant and Wiid (2013) claimed that macro environmental risk factors put great pressure on the South African SME sector which includes unemployment rate, inflationary pressure and government legislation. SMEs therefore need to actively seek out means by which to mitigate such risks by engaging in proactive strategic planning. For instance, Cheng et al. (2012) have conducted a study on Malaysian the Malaysian SME sector and found that with increased environmental uncertainty brought about by economic downturn bring rise to the need for firms to engage in strategic planning to deal with such challenges. Owolabi and Makinde (2012) stresses the importance of the strategic planning process in managing and coping with the rapid changes in the external environment. While, it is understood that many of the external forces are outside the control of the firm, strategic planning is indispensable in assisting SMEs to anticipate and proactively deal with such challenges. The study found that SMEs in Malaysia tend to engage in proactive strategies to deal with these increased perceived environmental uncertainty. Similarly, Mufudza et al. (2013) have found that in severe economic situations and hence with great environmental uncertainty, elements of the strategic process become quite a necessity for the SMEs in Zimbabwe. In particular, during turbulent economic scenarios, this study of the Zimbabwe SME sector indicates that the environmental pressure of the times in fact makes the strategic analysis part of strategic management very important and near indispensable. Constant environmental scanning is paramount for these SMEs in coping with rapid and often significant changes in the environment. Agbim et al. (2014) also proposes that microenterprises require constant environmental scanning in order to operate successfully in a turbulent environment. Smit and Watkins (2012) have also stressed that SMEs are inherently exposed to greater level of environmental pressure and risk due to resource constraint. As a result these firms must incorporate greater level of risk control and management systems in coping with such challenges. Furthermore, Chin et al. (2014) opines that SME operate in a business environment with great environmental uncertainty and hence precipitates the need for greater environmental scanning as part of its planning process and interestingly such strategic efforts could bear potential improved performance in the form of new business opportunities arising from deeper appreciation of the supplier and customer integrations. Literature seem to also suggest that relatively limited studies have

been undertaken to investigate the potential role that environmental uncertainty might played in influencing the planning process and hence performance of SMEs particularly in developing economies (Ghobadian et al., 1965; Parnell et al., 2012; Tracey and Phillips, 2011). Thus, this study intends to examine how environmental uncertainty.

## 3. CONCEPTUAL FRAMEWORK

Owolabi and Makinde (2012) stresses the importance of the strategic planning process in managing and coping with the rapid changes in the external environment. Others (Analoui and Karami, 2001; Smit and Watkins, 2012; Mufudza et al., 2013) found that environmental scanning tend to be a crucial determinant of the emphasis on the strategic process (Figure 1). From the above literature justifications, the following hypothesis is given:

H<sub>1</sub>: The higher the level of uncertainty as perceived by managers of Malaysian SMEs, the greater the degree of strategic planning.

Literature has shown that ownership motivation can have an impact on the strategic planning process undertaken by SMEs (Wang et al., 2006; Moog et al., 2011; Charles et al., 2015). Thus, the following hypotheses are provided.

H<sub>2</sub>: Ownership motivation could affect the degree of strategic planning of SMEs.

H<sub>2a</sub>: SME owners motivated by financial goals tend to undertake greater degree of strategic planning.

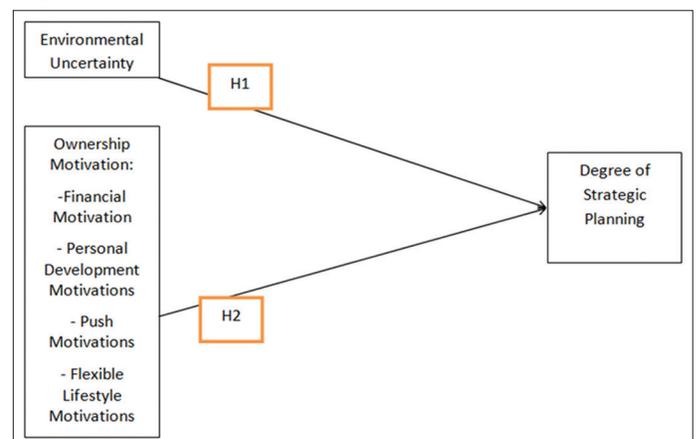
H<sub>2b</sub>: SME owners motivated by personal development goals tend to undertake greater degree of strategic planning.

H<sub>2c</sub>: SME owners motivated by push motivation goals tend to undertake lesser degree of strategic planning.

H<sub>2d</sub>: SME owners motivated by flexible lifestyle goals tend to lesser greater degree of strategic planning.

Many studies have provided considerable support that strategic planning as a process could have a positive impact on business growth (García-Pérez-de-Lema et al., 2012; Basu and Gupta, 2013; Uddin and Bose, 2013; Dibrell et al., 2014; Kinyua and Ali, 2016). The following hypothesis is thus suggested.

**Figure 1:** Antecedents of Strategic Planning (SME sector in Malaysia).



## 4. METHODOLOGY

This study is developed within a positivist paradigm in mind. Central to this research paradigm is the notion that concepts or variables used in the study can be operationalized and hence be measured with a certain degree of accuracy (Crowther and Lancaster, 2008). Positivist research therefore adopts a deductive approach in study. The survey approach was chosen as the preferred research approach for this research. The primary features of this survey are as followed:

- The use of adapted research instruments appropriate for the variables defined in the conceptual framework. Instruments are validated through the test of reliability and test of validity. These tests are undertaken to make certain that before inferential statistics are done data collected would be valid and reliable. To measure the extent of internal consistency the study employs the use of Cronbach alpha which assess the degree of how closely related a group of items are as a whole measure. Results are summarized in Table 1. The study values both content validity and construct validity for the instruments it employs. Content validity is important because it concerns the extent by which the instruments employed measures the constructs under study. Satisfactory content validity is achieved when the study provides sufficient and holistic coverage of the matter being researched. To achieve content validity the researcher sought the assistance of subject experts to review and validate the items of the instrument employed to ensure their relevance to the constructs and variables employed in the conceptual framework.
- A survey undertaken covering the northern states of Malaysia with a sample size of 260 owner/managers of SMEs.
- Multiple regression analysis would be undertaken to test hypotheses 1 and 2.

The sample of this study is selected from the SMEinfo portal's SME business registry which has a total listing of 6500 firms in Penang, Perak, Perlis and Kedah collectively at the time where the sampling is drawn. Therefore the population of this study is the total of 6500 SMEs located in these selected states listed in SMEinfo. Owner or senior managers answering on behalf of the business owners would be the targeted respondents mainly because this group would usually be the ones that are in the position to engage in planning for their respective firms and also would be the ones capable to provide internal details and information related to performance, strategy and planning of the company.

The questionnaire employed in this study is developed and adapted based on the instruments from several established studies namely:

1. Wang et al. (2006) small business operators' ownership motivations (16 items)
2. Mulford et al. (1988) a study of business planning (12 items).

## 5. FINDINGS

This section will provide a summarized review of the findings of the analyses that had been undertaken on the data collected on 260 Malaysian SMEs. Multiple regressions is undertaken in testing the conceptual model.

Testing of hypotheses 1 and 2 - Antecedents of strategic planning. A multiple regression was undertaken between the degree of strategic planning as the dependent variable and personal development motivations, push motivations, financial motivations, lifestyle motivations and environmental uncertainty as dependent variables. Tables 2-4 provide a summary of the findings of the analysis.

### 5.1. Interpretations

Firstly, in reference to Table 2, which is the modal summary (antecedents), the multiple correlation R is found to be 0.569. This R figure represents the total combined correlation of all the antecedents independent variables in this study namely, personal development motivations, push motivations, financial motivations, lifestyle motivations and environmental uncertainty. The adjusted R<sup>2</sup> in the model summary indicates that 31.0% of the variation within the degree of strategic planning could be significantly explained by the variations in the antecedent independent variables taken as a whole. This of course will mean that 69.0% of the variations are to be accounted for by other factors that are beyond the scope of this study.

Secondly, in Table 3 titled ANOVA (antecedents), the F value is found to be 24.270 which is significant at 5% level. This basically indicates that the 5 antecedent independent variables taken together a combined whole are significantly related to the dependent variable – degree of strategic planning. The chances of obtaining these results by chance are therefore slim and the multiple regression is thus highly significant.

Thirdly, Table 4 titled coefficients (antecedents) indicates the significant coefficients, namely, personal development motivations with P = 0.018, financial motivations with P = 0.000, lifestyle

**Table 1: Survey reliability results (Cronbach alpha)**

Scale title	Number of items	Cronbach alpha score
Personal development motivations	5 items	0.842
Financial motivations	4 items	0.860
Push motivations	5 items	0.723
Flexible lifestyle motivations	2 items	0.751
Environmental uncertainty: Suppliers	3 items	0.721
Environmental uncertainty: Customers	2 items	0.732
Environmental uncertainty: Competitors	2 items	0.714
Environmental uncertainty:	3 items	0.719
Sociopolitical forces		
Environmental uncertainty: Technology	2 items	0.776

**Table 2: Model summary (antecedents)**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Standard error of the estimate
1	0.569	0.323	0.310	0.77694

**Table 3: ANOVA (antecedents)**

Model	Sum of squares	df	Mean square	F	Significant
Regression	73.253	5	14.651	24.270	0.000
Residual	153.324	254	0.604		
Total	226.576	259			

motivations with  $P = 0.000$  and environmental uncertainty with  $P = 0.022$ . Push motivations are found to be insignificant as an independent variable with  $P > 0.05$ . It can be concluded from these significance levels, that all four antecedent independent variables contribute to the regression equation, thus making a significant contribution to the predictive extent of the model but however push motivations does not. The degree of the individual contributions to the model is indicated in the unstandardized coefficients B. In the table, B could be interpreted as showing that for one unit increase in the independent variable the dependent variable will correspondently increase by that amount. For instance, for 1 unit of measurement increase of personal development motivations, the degree of strategy will increase by 0.176. With 1 unit of measurement increase of financial motivations, the degree of strategy will increase by 0.337. While, 1 unit of measurement increases of lifestyle motivations will lead to a decrease in the degree of strategy by  $-0.210$ . Also, 1 unit of measurement increase of environmental uncertainty will also be accompanied by an increase of the degree of strategy by 0.274. The variance inflation factor data in Table 4 do not indicate any problems with multicollinearity as the statistics is below 10 for each of the antecedent variables under study.

Finally, from Table 4 the regression equation for the antecedent portion of the model could now be produced. Degree of strategic planning =  $1.221 + 0.176$  (personal development motivations) +  $0.261$  (push motivations) +  $0.337$  (financial motivations)  $- 0.210$  (lifestyle motivations) +  $0.274$  (environmental uncertainty).

Out of the two main hypotheses featured within the conceptual model, Hypothesis 1 is partially supported while hypothesis is fully supported at the 5% significant level statistically. Results of the hypotheses are outlined as followed in the Table 5.

## 6. DISCUSSION AND CONCLUSION

This study has empirically proven that a statistically significant relationship exist between the degree of strategic planning and the business growth of SMEs in Malaysia. This finding leads to the implication that Malaysian SMEs should undertake a higher degree of strategic planning in order to enhance their business growth. The study in many ways deepens the understanding of the strategic planning practices of the SME sector especially in the context of ownership motivations. The study has produce important findings that could serve as the means to further encourage the employment of the strategic approach within the SME sector. Based on the findings outlined in the data analyses described in previous section the following insights emerged:

- i. The level of environmental uncertainty does positively influence the adoption of strategic planning to a certain significant extent. This seems to suggest that as SMEs are faced with greater level of perceived uncertainty, more efforts are extended on the strategic planning process. More effort in long term strategic planning is needed in the wake of higher perceived risk. This finding is consistent with prior literature that suggests that the business environment imposes a greater level of uncertainty on SMEs due to their relative resource constraints (Agbim et al., 2014; Ghosh and Chan, 2014; Chin

**Table 4: Coefficients (antecedents)**

Model	Unstandardized	Standardized	Collinearity
	coefficients	coefficients	
	B	Significant	VIF
Constant	1.221	0.011	
Personal development motivations	0.176	0.018	1.081
Push motivations	0.261	0.107	1.030
Financial motivations	0.337	0.000	1.144
Lifestyle motivations	-0.210	0.000	1.090
Environmental uncertainty	0.274	0.022	1.040

VIF: Variance inflation factor

**Table 5: Hypothesis result**

Hypotheses	Result
H <sub>1</sub> : Ownership motivation could affect the degree of strategic planning of SMEs	Partially supported
H <sub>1a</sub> : SME owner – managers motivated by financial goals tend to undertake greater degree of strategic planning	Supported
H <sub>1b</sub> : SME owner – managers motivated by personal development goals tend to undertake greater degree of strategic planning	Supported
H <sub>1c</sub> : SME owner – managers motivated by push motivation goals tend to undertake lesser degree of strategic planning	Not supported
H <sub>1d</sub> : SME owner – managers motivated by flexible lifestyle goals tend to undertake lesser greater degree of strategic planning	Supported

SME: Small and medium enterprises

- et al., 2014) and hence would need to engage in more proactive form of planning in dealing with these challenges (Owolabi and Makinde, 2012; Cheng et al., 2013)
- ii. Ownership motivation is found to partially influence the level of strategic planning exhibited within the SMEs surveyed. In particular, survey results seem to indicate that SME operators driven primarily by financial motivations seem to exhibit greater level of effort in the strategic planning process. Similarly, operators motivated by personal development reasons also show greater emphasis on the strategic planning process. While those SME operators that are driven by lifestyle flexibility seem to extend much less importance to the strategic planning process. These findings are consistent with established literature which suggests that SME operators driven by pull factors like financial prospects, passion for product idea, personal development, etc., are more likely to have the drive to push for the venture's growth (Baba and Elumalai, 2011; Qureshi, 2012; Ismail et al., 2012; Asah et al., 2015; Isaga, 2015). Thus, these "Pull Driven" SME operators have a higher tendency to adopt a more strategic approach to planning (Wang et al., 2006; Moog et al., 2011; Charles et al., 2015). Finally, no significant relationship seem to be identified for those SME operators driven by push factors in relation to the emphasis placed on the strategic planning process. This seem to contradict the study of Wang et al. (2006) which

suggests that those driven by push factors are less likely to engage in a formalized business plan.

## 7. RECOMMENDATION FOR FUTURE RESEARCH

The conceptual framework introduced in this research could effectively be employed as the inspiration for future research into the strategic planning process of SMEs in other areas of Malaysia as well as in other developing nations. Future research perhaps is warranted in comparing the strategic planning orientation of Malaysian SMEs with those in other developing countries. It is also entirely justifiable for future studies to review the similarities or even differences in several industries to increase our understanding of SMEs' planning approaches. Future research could also employ a greater sample size with an aim of improving the generalizability and representation of the findings with a replicated study of the model.

Future research could also examine other important owner related characteristics such as entrepreneurial orientation, gender differences or risk attitude as important antecedents that could potentially influence the degree of strategic planning as practiced by the SME sector.

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