

THE STRATEGIC PLANNING OF SMES IN MALAYSIA: A VIEW OF EXTERNAL ENVIRONMENTAL SCANNING

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ABSTRACT

The business world today is getting more competitive and many companies are looking for ways to survive in the market competition especially Small Medium Enterprises (SMEs). This research was aimed at investigating whether formal strategic planning is relevant to SMEs and whether the strategic planning model suggested by Wheelen and Hunger (2008) is applicable to SMEs in the Asian context and in particular the Malaysian context. The main focus was to determine how important external environment scanning was to SMEs in the Northern states of Malaysia and do SMEs perform the external environment scanning which resemble the Wheelen and Hunger (2008) strategic planning model. The sample of the research comprised of SMEs in the Northern states of Malaysia which covered Perlis, Kedah and Penang. The population of the samples was derived from the directory of SMEs from the website. A purposive sampling was used and a cross sectional study was conducted where data was collected over a period of weeks through mail questionnaire and individual administrated questionnaires. The result of the research suggested that most SMEs do have some form of formal strategic planning. Further to this, it also indicated that environment scanning is getting more attention from the SME in today's competitive market. The findings suggested that most of the SMEs do have strategic planning which resembles the Wheelen and Hunger Strategic Planning Model. There is a strong indication that the model of Wheelen and Hunger Strategic Planning is applicable to the practice of SMEs in the Northern region in Malaysia.

Keywords: Small Medium Enterprise; Strategic Planning; Environment Scanning.

1. INTRODUCTION

Small and Medium Enterprise (SMEs) are vital to determine the growth of economy in all countries. In the heat of today's competition, most of the SMEs are struggling to survive in the market. In order to be successful, SMEs need to possess various types of resources including financial, technological, human and knowledge resources (Brush et al., 2001). According to

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Hashim (2011), SMEs in Malaysia represent majority of the business enterprises and they make up more than 90% of the total number of businesses as they can be found in various industries. As reported in the SME Annual report 2009/2010, SMEs accounted for about 99% of total business establishments, 56% of total employment and 19% of the total exports of the country.

Despite their importance in the national economy, studies have revealed that SMEs in Malaysia encounter various problems in their operations that affect not only their sustainability but also their business activities. This study intended to help managers to understand how strategic planning can be done with the model suggested by Wheelen and Hunger (2008).

The main objective of the journal was to examine whether SME did strategic planning and whether the strategic planning model suggested by Wheelen and Hunger (2008) applies to the SME in the Asian context, in particular the Malaysian context. The research attempted to examine whether external environment scanning was done in SMEs in Malaysia as proposed by the model and how the environmental factors fared in terms of their importance to these SMEs. This study contributed to knowledge on how relevant the model is to SME in Northern States in Malaysia and how the Wheelen and Hunger (2008) model can help SMEs to do their strategic planning and especially the environmental scanning.

2. LITERATURE REVIEW

According to Normah (2006), the Chief Statistician from Department of Statistics Malaysia, SMEs has been the backbone of the Malaysian economic growth in driving industrial development. This is due to their sheer numbers, size and nature of operations, in promoting endogenous sources of growth and strengthening the infrastructure for accelerated economic expansion and development in Malaysia. For such reasons, the success of SMEs is very important to ensure the consistent growth of the country's economy. The main focus of this study was to examine whether SME do their strategic planning and whether their strategic planning resembles the Strategic Planning Model suggested by Wheelen and Hunger (2008) specifically in the first stage of the planning where the external environment scanning was proposed by the model.

Previous researches had consistently showed that most SMEs do not engage in strategic planning (e.g., Robinson & Pearce 1984; Sexton & Auken 1985; Berman, Gordon & Sussman 1997; Orser, Hogarth-Scott & Riding 2000; Robinson & Pearce 2001 and Beaver 2003). According to Gable and Topol, (1987), environmental scanning is a necessary process which prelude to strategy formulation to enable the firm to understand its external environment in terms of factors that can influence its resources. This should be done so that SMEs can develop responses to secure or improve its future position to the changes of the environment. Scanning the environment is the first stage in the process of understanding and therefore in the process of linking strategy and the firm's external environment (Hambrick, 1982; Daft et. al., 1988). Based on the findings from previous study done by Haase and Franco (2011), SMEs suffer from resource constraints, they have lack of infrastructure to obtain and analyze external information, unlike larger companies which are able to obtain external information from specialized sources. Previous research also indicated that SMEs faced with challenges in obtaining specialized external information and in environment of uncertainty. SMEs should,

therefore develop effective strategic planning where they must obtain relevant information of the external environment.

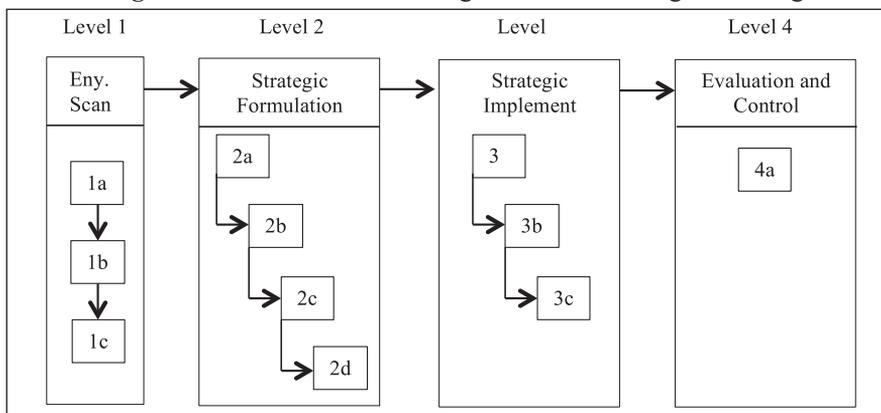
Since SMEs faced the problem in obtaining external information, are they able to benefit from the strategic planning model suggested by Wheelen and Hunger (2008)? Boyd and Fulk (1996) showed that systematic scanning should be used by smaller organizations to help them understand and cope with complex environmental uncertainties.

Wheelen and Hunger (2008) argued that Strategic Management is a rapidly developing field of study that has emerged in response to increasing environmental turbulence. According to the authors, this area of study looks at managing the organization as a whole and attempts to explain why some organizations performed well while others did not.

The Strategic Planning Model developed by Wheelen and Hunger (2008) involved four major steps which are: environmental scanning, strategy formulation, strategy implementation and strategy control and evaluation. The scope of the strategic planning process (Figure 1) covers organization-wide issues in the context of a whole range of environmental influences. The Strategic Management process involves organization, management and environment as a whole. Thus in understanding the Strategic Management process and how it works, a general knowledge of the organization, its internal and external environments and management is required (Wheelen & Hunger, 2008).

Environment scanning is aimed at gathering and analyzing data from outside the organization (Daft and Weick, 1984). Aguilar (1967) defined environmental scanning as the acquisition and the use of information about events, trends and relationships in an organization's external environment. This knowledge is vital for the organization and would assist the management in planning the future course of action. Environment scanning helps managers to better understand the development of the market and assists the strategic planning efforts (Hambrick, 1982; Lester & Parnell, 2008).

Figure 1: The Wheelen and Hunger Model of Strategic Planning



Notes: Legend: 1a to 4a are element for each level of strategy planning 1a: external environment (PEST); 1b: industry environment; 1c: Internal environment 2a: vision and mission; 2b: objectives; 2c: strategy; 2d : policies 3a: program, 3b: budget; 3c: procedures 4a: evaluation and control.

Source: Wheelen and Hunger (2008).

Stoffels (1994) suggested that studying the external environment should be the first thing to do in strategic thinking. May (2000) argued that environmental scanning used the external information for strategic decision making and these information will be used by organization to react quickly, adapting its strategy at the right moment and to guard against threats and future constraints (Strandholm & Kumar, 2003).

Haase and Franco (2011) analyzed the increased importance for environmental scanning and reported that scholars have published a number of studies of environmental scanning in different industries namely the manufacturing (Jennings & Jones, 1999), services and retail (Folsom, 1991), tourism and hospitality and health care (Davis et. al. 2008), traffic management (Jennings and Jones, 1999) and biotechnology (Antunes and Canongia, 2006, Berard & Delerue, 2010)

Haase and Franco (2011) also found that the discussion of the external environment information sources used in the environmental scanning is somewhat scanty and centered on large organizations and for small and medium sized enterprises, timely and relevant information sources from the socio economic surroundings is equally important. They found in their research that size of an organization do in fact have an impact on environmental scanning. Smaller firms do not scan as broadly as frequently as larger companies. Smaller firm under utilised certain external information for their competitiveness (Haase & Franco, 2011).

3. METHODOLOGY

The primary goals of this study were to examine whether SMEs in the northern states of Malaysia do strategic planning and how the strategic planning process is done. The sample of the research comprised of SMEs in the Northern Region of Malaysia which covered the states of Perlis, Kedah and Penang. The researcher obtained the population of SMEs from the directory of Small Medium Enterprise which is accessible through the website. A purposive sampling was chosen as the sampling design for the reason that companies which were chosen have to qualify certain requirements before they can be used as respondents or before they are considered as SMEs. As this was a cross sectional study, the data was collected over a period of weeks and data was gathered from September 2011 to December 2011. The data came from two sources: mail questionnaire and individual administrated questionnaire. For mail questionnaire, two hundred and fifty questionnaires were mailed to the respective SMEs with the help of a research assistant. The respondents were asked on whether they do strategic planning and whether they utilized each steps suggested by Wheelen and Hunger (2008) model in their strategic plans (The strategic plan of Wheelen and Hunger (2008) consists of environment scanning, strategy formulation, strategy implementation, strategy evaluation and control). The strategic planning questionnaire was operationalized using the Wheelen and Hunger Model (2008).

As for individual administrated questionnaire, one hundred questionnaires were distributed through self-administered method with the help of research assistants. Statistical Package for the Social Sciences (SPSS) version 19.0 was used to analyze the data collected. In terms of data processing, five statistical techniques were used for different purposes. These included descriptive statistics, mean, median, standard deviation. For inferential statistics, crosstab results were obtained and chi square results were conducted. The respondents' demographic

variables were analyzed using descriptive statistics such as frequencies and percentages. While other items were measured based on the five point Likert scale and ordinal scale. Due to this reason, only non parametric tests such as chi squares were performed to analyze the results.

4. FINDINGS

A total of 300 questionnaires were mailed to SMEs in the Northern states (Perlis, Kedah and Penang). Out of the 118 returned questionnaires, 10 questionnaires were discarded due to incomplete data. Hence, 108 questionnaires were used in the statistical analysis representing a response rate of 36%. From, the 108 companies which responded, 52(55%) companies were from Kedah, 33 (35%) companies were from Perlis and only 9 (9.5%) from Penang. In terms of industry, 73 (77%) companies were from other industries, 5(4.8%) in furniture, 7 (6.7%) in cosmetics, 3 (4%) motor vehicle, 7 (7,7%) in .hotel and 1 (1%) in education industry. Most of the companies which responded have one owner (42%), two owners (36.1%), three owners (14.8%), while 6 (7.4%) companies have four and more owners. The highest percentages were recorded for companies with 10-50 staff (58%), 51-100 staff (31%), 101-150 staff (5.6%) and above 151 staff (4.1%) respectively. In terms of start-up capital 34 companies (32%) have a start-up capital of less than RM50,000, 28 companies (26%) have a start-up capital of RM50,001-RM100,000, while 26 companies (27%) have a start-up capital of RM101,000 – RM500,000 There were only 17 companies(16%) with start-up capital of more than RM500,000. Most companies which responded were established companies with 4-6 years of establishment (24%), 10-12 years (17.5%), 1-3 years (16. %), 16-18 years (10%) and more than 21 years (9.3%) respectively. Most respondents who were interviewed were 1) Managing Director (26%), 2) CEO (16.3%), 3) Sole Proprietor (16.3%), 4) Manager (16.3%) and 5) Senior Manager (8.7%).

4.1. *How do SMEs do their Strategic Planning?*

Respondents were asked if they do formal strategic planning which resembles the elements and the four stages of Wheelen and Hunger (2008) model.

4.2. *Does your company do strategic planning (conduct external environment scanning) and how important it is?*

The table below shows the results whether the respondents conducted strategic planning (external environment scanning) and how important it was to them. Out of 81 respondents who answered this question, 65 of them said that they conducted strategic planning formally and do environmental scanning. Only 16 of them said that they did not scan the environment. Of those who said that they scanned the environment, 47 of them felt that it was important and very important to do so.

Table 1: Result of Environmental Scanning

Conduct Environmental Scanning	Count	Very not Important	Not Important	Neutral	Important	Very Important
Yes	65	5	6	7	25	22
No	16	-	-	-	-	-
Total	81	5	6	7	25	22

4.3. If your company do environmental scanning, which environmental factors would be most important?

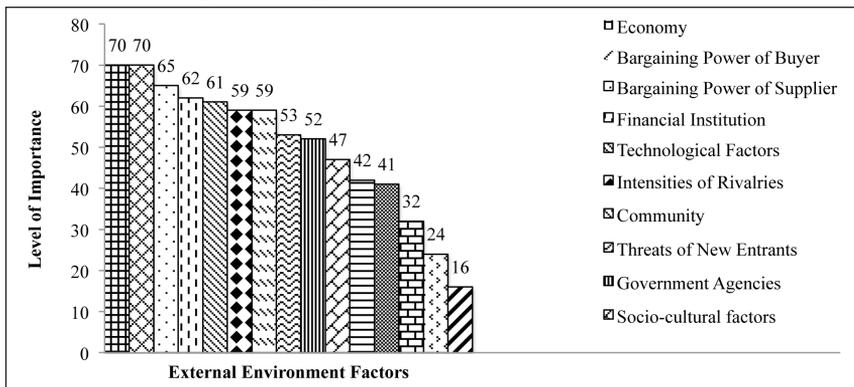
Table 2 depicts that if the respondents have done environmental scanning what are the factors (political, economical, legal, social, and technological) they would consider important and how these factors fared in terms of very important, not important, neutral, important and very important.

Table 2: Importance of External Factors in Environmental Scanning For Those Who Do Environmental Scanning

External Environment Scanning Factors	(Factors of External Environmental Scanning)					Total
	Very not Important	Not Important	Neutral	Important	Very Important	
Political and legal factors.	6	9	24	27	15	81
Environmental Scanning Factors						
Economic factors	1	2	8	27	43	81
Socio-cultural factors.	2	3	28	31	16	80
Technological factors.	0	4	15	34	27	80
Bargaining power of suppliers.	1	2	13	36	29	81
Bargaining power of buyers.	1	1	7	44	26	79
Threat of substitute products.	2	11	26	37	4	80
Intensity of rivalries.	1	2	18	29	30	80
Importance of trade block.	8	13	26	29	13	79
Importance of labor union	8	15	31	15	9	78
NGOs (non government organization)	14	15	34	12	4	79
Government agencies	5	4	20	36	16	81
Community	0	6	16	36	23	59
Financial institution	2	4	12	36	27	80
Threat of new entrants	1	7	20	48	5	81

From the results above, the importance of external environment factors can be illustrated in Figure 2 below.

Figure 2: Importance of Environmental Factors



The histogram shows that in terms of environment factors most SME responded that in the external environment scanning the most important factor is the economic factor (B7b). This is followed by B7f (bargaining power of buyers), B7e (bargaining power of suppliers), B7n (financial institution), B7d (technological factors) and B7h (intensity of rivalries), B7m (community) and B7o (threats of new entrants). External environmental factors that are less important (in descending order -higher to lower order) are: B7b government agencies, B7c socio-cultural factors, B7a political and legal, B7g threats of substitute products, B7i trade block, B7j labor union and B7k non government organization.

4.4. Does the Wheelen & Hunger Model diagram resemble your company's strategic management planning?

There were 100 respondents who answered this question. Out of this hundred, 59 respondents or (54.6%) answered yes, while 49 respondents or (45.4%) answered no. In other words more than half respondents agreed that their strategic planning process do somewhat resembles Wheel and Hunger Strategic Planning Model.

Of those who agreed that the model resembled their strategic planning process, 52% said that the model exactly resembled their strategic planning.

A Chi Square test was further conducted to see if those who think that if their strategic planning process resembled the Wheelen & Hunger model, will there be a tendency that it will exactly follow the Strategic Planning Model suggested by Wheelen & Hunger (2008). The Chi Square Test result provided below is significant at 0.000 ("p" less than 0.001): which suggested that if the SME do strategic planning, it will follow the Wheelen & Hunger (2008) model.

Table 2: Chi Square Test. (If strategic planning process resembles Wheelen and Hunger Model, there will be tendency it will be exactly the same as their strategic planning process)

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	101.084	8	.000
Likelihood Ratio	137.309	8	.000
Linear-by-Linear Association	77.347	1	.000
N of Valid Cases	108		

5. DISCUSSION OF FINDINGS

Major findings of the study indicated that SMEs do have some form of formal strategic planning and further to this, most of their strategic planning resembles that western Strategic Planning Model suggested by Wheelen and Hunger (2008). In terms of environment scanning, most respondents indicated that environmental scanning is important to them. Among the environmental factors, the most important factor that the respondent felt was the economic factor, this was followed bargaining power of buyers, bargaining power of suppliers, financial institution, technological factors, intensity of rivalries, community and threats of new entrants. Economic factors which cover economic growth of the country, purchasing power, employment, inflation, taxation etc were the most vital factors to the SMEs to determine their survival in

business and hence, formulation of strategies. This was followed by technological factors like new product development, product innovation or automation. Political factors were considered next, like stability of the government, change of the government, laws or regulations, The research provided support to earlier findings of Beck (2007) where external environmental scanning factors were examined in relation to SMEs performance, These environmental factors were found to be significantly important to the organization in terms of performance.

The findings were also in consistent with the study which was done by Ngamkroekjoti and Speece (2008) where SMEs were found to benefit from environmental scanning when a comprehensive scanning was done to their new product development. Their study clearly suggested that SMEs which conducted environmental scanning were able to develop better strategies and the environmental scanning practices have an influence in the success of the company. Further to this the authors viewed environmental scanning as a strategy tool and companies should scan the environment for a long term objectives (five to ten years). The findings were also in consistent with research done locally by Hashim (2011) who found that economic factors were the most important factors considered in environmental scanning.

Although many earlier research found that smaller companies are incapable of formal strategic planning and environmental scanning, this research has proven otherwise. One of the reason of why SMEs in the Northern states do have some form of formal strategic planning and environmental scanning could be due to the reason of the active role of the Malaysian government. The Malaysian government emphasized and focused a lot on the growth of SMEs as it is the backbone of the Malaysian economy. They have provided a lot of assistance, training, education and support to these SMEs through various government agencies or bodies. In fact, each year during the Annual National Budget, the Malaysian government will announce a substantial amount of money and funds to be put aside to train and educate the SMEs.

The limitation of this study was the sample selected may not be able to generalize all SMEs in Malaysia as it covered only the States of Kedah, Perlis and Penang. Furthermore, only 9% of the respondent in this study came from the state of Penang. The limited number of companies which participated in this study may be a concern on the representativeness of the sample. Future research in this study should include wider zones across all states in Malaysia. Larger sample size will increase the validity of these findings which can be used as a general reference in evaluating SMEs strategic planning.

6. CONCLUSION

The overall previous studies indicated that Strategic Planning is important for the growth of SMEs especially the first stage which is environment scanning. However, earlier findings of many research indicated that SMEs do not really have a formal strategic planning and they tend to face with difficulties in obtaining external information from specialized sources when their conduct environment scanning. However, most studies agreed that External Environment Scanning is the most important stage that SMEs should look into in order to survive in the intensity of market competition. Future studies should explore wider sample range from all states of Malaysia.

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