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Mission and vision, environmental scanning and formality of strategic planning as predictors of the performance of

58small and medium enterprises (SMEs) in the Gauteng Province of South Africa

Abstract Faced with volatile business conditions and the hyper competitive market environment, SMEs are continuously focusing on finding ways to improve

78their performance. This paper attempts to establish the effect of

65mission and vision, environmental scanning and the formality of the strategic planning process

on the performance of SMEs. A quantitative research approach was pursued

52through a self-administered survey questionnaire. Descriptive statistics, correlation analysis and regression analysis were used to analyse the data. The main findings

of the study suggest that,

84the mission and vision statements, environmental scanning and the

formality of strategic planning

66have a positive effect on the performance of SMEs. The formality of

strategic planning emerged as the factor with a stronger impact on SME performance than environmental scanning and mission and vision. The study provides some practical insights for SMEs for improving their performance in line with the identified effect of these three factors. Ultimately, improving their performance along these factors is set to reinforce SME sustainability and which will further stimulate their profitability. Key words: SMEs, Gauteng, South Africa, business performance, mission and vision, environmental scanning, formality of strategic planning JEL Classification: I.INTRODUCTION

4Given the intense competitive business world and the

constantly changing market conditions, business performance

4has become a crucial issue among scholars and practitioners. Therefore, in order to remain competitive and sustainable,

SME owners and managers need to ensure that they perform well. Consequently, both business practitioners and academicians have been interested in identifying the antecedents of business performance. Interestingly to note, mission and vision, environmental scanning and formality of strategic planning are among some of the factors that have increasingly being recognised in the extant literature as predictors of business performance

31(Bart and Hupfer, 2004; Forbes and Seena, 2006).

These researchers show that it is crucial for businesses to scan the environment in order to make informed decisions. They also advise SMEs

39to have a mission and vision statement because it gives direction to

the business and to have a formal strategic plan as it guides the business in strategy implementation. Therefore, these factors are regarded as success factors that are critical in achieving competitive advantage (Bart and Hupfer, 2004; Kantrabutra, 2010). Although previous empirical studies that examine business performance are several—particularly in the developed parts of the world, two main research gaps are identified by the current study. First, the previous studies have by and large sought to investigate the factors influencing business performance of large organizations. There appears to be a void of empirical studies that

3investigate the influence of these factors on the performance of

SMEs. This study seeks to fill in this identified research gap. Second,

3most of these studies have been conducted in the developed

or newly developed parts of the world such as countries in Europe, the USA or Asia. Conspicuously, hardly can one find studies on the same in the African context. Perhaps, it might not be judicious to assume a-priori that the findings from the developed parts of the word can apply

4in the African context. Therefore, the current study

seeks too, to confirm or disconfirm the previous findings from developed countries

4in the African context – in particular,

using South Africa as a case in point. The contributions of this study are expected to be academic and practical oriented. For instance, exploring the influence of mission and vision, environmental scanning, and formality of strategic planning on business performance will provide practical basis and motivations for SMEs in South Africa to make use of these variables in order to improve their performance. This will ultimately lead their competitiveness and sustainability. On the academic front, the current study is

expected to generate new literature on SME performance predictors from an African perspective.

3The rest of the paper is arranged as follows: A

theoretical review and hypotheses will firstly be presented. Thereafter the methodology, data analysis and conclusions are discussed. The final section presents the managerial

60implications, limitations and recommendations for future research. 2
LITERATURE REVIEW The review of literature

provides a discussion about mission and vision, environmental scanning, formality strategic planning and business performance. 2.1 Mission and vision According to Forbes and Seena (2006), a mission statement is crucial as it motivates staff and guides decision making. Ungerer et al. (2007), state that the business mission ensures employee commitment creates an understanding of the business domain in which the business would want to operate. A number of

61studies have examined the relationship between mission statement and
business performance (Bart and

Hupfer 2004; Hong and Park, 2010). Bart et al. (2001) analysed

39the impact of mission statements on firm performance

using

50data from 83 large Canadian and US

organisations. The findings show

50that mission statements do affect financial performance.

Similar results were also found in Strong's (1997) study, whose findings from a

86study of the formulation of mission statements

by UK organisations

69confirm a positive relationship between mission statements and firm
performance. Forbes and Seena (2006)

also provide strong evidence

67of the impact of mission statement on performance from a study of

18 not-for-profit hospitals. Similarly, a study by Hirota et al. (2010) confirms the view

81that corporate mission and policies contribute to an improved performance.

Besides mission statements, a business should also develop a vision statement because it is considered part of the strategic process within businesses (David 2003). Furthermore, the author states that while a mission statement states the business of the organisation,

31a vision statement clarifies what it wants to become.

Rossouw et al. (2003) mention that a vision is a statement that states where the business intends to go and what to do to get there. It means that a vision indicates the

20state of the business in future, for example

what it will be and what products or services will it offer to the market. Finkelstein et al. (2008), on the other hand, stated

20that vision encapsulates the ideology or guiding philosophy of a business and

it expresses the

20values, purpose and direction through the mission and business objectives.

Kantabutra and Avery (2010) point out that vision is needed by a business to guide, remind of history of the company, inspire, and to control the business. According to Ungerer et al. (2007), a business vision must be shared and ensure everyone's commitment, be able to clarify the business' desired future, be fluid, sustainable, and nurtured in a constant process. Moreover, the authors state that a business vision should not be vague and should be a solution to the business' current problems. The authors therefore recommend that a business mission should be emotional, inspirational, come from inspirational leadership, it should be detailed, and able to provoke magic thoughts. Some empirical evidence suggests that vision-driven businesses improve on their performance (Kantabutra 2010). A study of the power of vision in apparel stores by Kantabutra (2010), found that

48vision characteristics and content have positive and direct effects on both customer and staff satisfaction,

and hence business performance. 2.2 Environmental scanning There is a general consensus among researchers that businesses

12scan the environment in order to adapt to the dynamic and

uncertain environment (Jorosi 2008). In other words, it is necessary to scan the environment so that businesses may better deal with the changes in the environment in which they operate. In conducting an environmental assessment a business needs to review, evaluate and disseminate information from both the external and internal environments. For this reason, Hunger and Wheelen (2007) suggest that to gather all the information about factors that affect the business, there is a need to assess both the internal and external environments. An internal scanning of business identifies its strengths and weaknesses while the external assessment establishes the opportunities and threats. Smit et al. (2007) mention that the business environment consists of three different

36environments, namely the micro-environment, market environment and the macro-environment. The micro-environment consists of the business itself and

other aspects that have complete control, such as the mission and goals, departments in organisation, the culture of the organisation and organisational resources that include human, expertise and financial resources. The market or task environment includes the environment surrounding the business, which consists of consumers,

51suppliers, intermediaries, competitors, substitute products, possible new entrants and labour unions. The macro-environment

consists of variables, which the business does not control, but instead these forces influence the way the business operates. These variables include the political, economic, social, technological, ecological and international factors (Smit et al. 2007). Karami (2008) also clarified that a business' external environment consists of two components, which are the societal and the task environment. The societal environment comprises of variables that indirectly affect the business and these include, the economic, technology, political, legal, socio-cultural and demographic factors. The task environment factors involve variables that have direct interaction and influence on the organisation, for example the operation of suppliers, customers and competitors (Jorosi 2008; Karami 2008). Organisations may assess the societal environment using an assessment technique called the PEST analysis (Popoola 2000), which is an acronym standing for political, economic, social and technological forces. The political or regulator sector includes government regulations, procedures, policies, political stability and developments that can affect the viability of the business. Economic forces consist of business cycles, Gross National Product trends, inflation and interest rates, government budgets, unemployment and disposable income. Socio-cultural variables encompass lifestyles, cultural trends, consumerism, attitude to work, crime rate and women empowerment aspects. Technology factors comprise of research and development, government spending on research, information technology infrastructure, innovation in materials and services, and rates of obsolescence. Businesses operating in South Africa need to scan the environment constantly; because

the country's readmission to international markets offers numerous opportunities as well as posing serious threats (Smit et al., 2007). This implies that the international market forces must also be scanned, as they affect the profitability of businesses. In order to survive and succeed in today's competitive environment it could help businesses to first pay attention to factors that have an immediate effect on them. A study by Karami (2008) found that in today's high levels of competition, and uncertainty, businesses scan the environment to improve their competitiveness. Popoola's (2000) study of corporate banks in Nigeria revealed that environmental scanning enables banks to gain competitive advantage. 2.3

74 **Formality of strategic planning** Formality **of strategic planning** describes **the**

extent to which the strategic plan is presented in written form. Pellissier and Kruger (2011) report the use of a formalised strategic plan in a study of the practice of

28 **strategic management within the South African long-term insurance industry. The results** obtained suggest **that**

long-term insurance companies

87 **utilise a formalised strategic management process.**

A study by O'Regan and Ghobadian (2002) reveals that formal strategies are more able to eliminate strategy implementation barriers than non-formal planners. A study of small business formal and non-formal planners by Kraus et al. (2006) revealed that formal planners were able to grow twice as much as non-planners. 2.4 Business performance There is still no consensus among business practitioners and academics on how to measure business performance (Tang and Zhang 2005; Pun and White, 2005). However, several researchers tend to agree that organizations can generally use the objective rather than subject measures to assess their success, provided that accurate information is provided

77 **(Chow and Van der Stede, 2006; Panigyrakis and Theodoridis, 2009). The**

objective business performance measures consist of the financial records that include actual profit,

57 **turnover, return on investment, return on capital employed, and inventory turnover.** The subjective **measures**

tend to rely on the perceptions of the managers and key role players (owner) perceptions of business performance (Phillips et al., 1999). Critics of objective measures of business performance report that objective measures are inaccessible, confidential, incomplete and often inaccurate (Chong, 2008). Profit figures are subjected to manipulations, which make comparisons among different sectors difficult. In a similar vein, Chow and Van der Stede (2006), Atkinson and Brown (2001) argue that objective measures are unreliable because they are too aggregated and backward looking rather than forward looking; stressing the short-term future of the organization instead of the long term benefits. Managers (owners) are therefore, unable to understand the root causes of performance problems and make cross-functional decisions in order to survive in turbulent business environments. A study by Tang and Zhang (2005) reveals that

23 **objective performance data are influenced by industry specific factors and hence, are inappropriate for cross-industry comparison.**

Due to these weaknesses, Tang and Zhang (2005) recommend the use of subjective measures because of the difficulty in obtaining objective performance data. Subjective business performance measures are provided in non-monetary terms, for example, market share, customer satisfaction, employee turnover and new product development which is relevant to survive in competitive environments (Verbeeten and Boons, 2009). Dawes (1999) argues that with subjective measures, managers (owners) are willing to provide their perceptions about business performance, even if the information required is of a sensitive or confidential nature as they need to survive in a rapidly changing competitive environment. Jusoh and Parnell (2008) further provide affirmations to such arguments that the strength of non-financial measures lies in their ability to provide insight into business processes and outcomes which in the long term are better predictors of future business performance 3. PROBLEM INVESTIGATED, RESEARCH HYPOTHESES AND OBJECTIVES Despite the benefits of strategic planning activities such as mission and vision, environmental scanning and formality of strategic planning,

1 **there is little evidence of empirical research that has sought to evaluate** these dimensions **within the** domain **of** small business research **(French**

et al, 2004). In the same vein, Sum et al. (2004), state that

1 despite the widespread recognition of the importance and significant contributions of SMEs, research on these small businesses remains scarce.

A review of literature on strategic planning in South Africa shows that there is a paucity of studies that has focussed on the impact of mission and vision, environmental scanning and formality of strategic planning business performance. Therefore, little is known about

2 the impact of these factors on the performance of SMEs in

Gauteng province. It is necessary to carry out this research as it provides invaluable insights for SMEs owners/managers initiatives about how these factors can provide an enabling mechanism to improve business performance. The study therefore

3 seeks to achieve the following objectives ? To identify the effect of mission and

vision on SME performance ? To ascertain the

4 impact of environmental scanning on the performance of SMEs ? To evaluate the

influence

5 of the formality of strategic planning process on SMEs performance.

6 In order to support the objectives of the study, the

following hypotheses were formulated. H1: The use of mission and vision statements positively influences SME business performance. H2: Scanning the business environment has a positive impact on SME performance. H3: The more formal the strategic planning process is, the higher is the performance of SMEs 4. RESEARCH DESIGN The study was located with a positivist, quantitative research paradigm. A positivist research perspective seeks to test and confirm hypothesis in order to explain and predict the effect of one factor on another (Johnson and Onwuegbuzie, 2004; Schiffman and Kanuk 2009; Sedmak and Longhurst; 2010). This approach was adopted

7 in order to establish the relationship between strategic planning and the performance

of SMEs. The population of this study included SMEs operating in Gauteng province.

8 A sample size of 200 SMEs was used in this study.

The unit of analysis in this study included SME owners and managers. They were identified based on their job title and position in the business that were responsible for strategic planning. A structured questionnaire was used. A demographic section solicited information about the owner-managers, such as age, sex, marital status; position occupied in the business, respondent's title, as well as the

9 business' characteristics such as, number of years in business and number of employees. The

remaining sections solicited information related to the strategic planning practices and business performance. To measure the performance of SMEs, the subjective measures of business performance were because SMEs are not willing to provide financial data indicating their performance (Falshaw et al., 2006; Tapinos

10 et al., 2005; Chow and Van der Stede, 2006;

Chong, 2008), Furthermore, concerted efforts to obtain actual performance data were difficult to obtain in the study from managers/owners of SMEs. Therefore, data was collected through personal visits to the identified respondents by the principle researcher. Respondents were given enough time to complete the

questionnaires. The demographic data was analysed using descriptive statistics. Correlation coefficient analysis

5 was conducted to ascertain the relationships between strategic planning and business performance;

and

3 multiple regression analysis was finally used to analyse the predictive relationship between strategic planning factors and

business performance. 5.

76 RESULTS AND DISCUSSION 5.1 Demographic composition of the sample The demographic distribution of

respondents reveals that out of 200 respondents, the majority of respondents 121 (60.5%) were male and 79 (39.5%) of respondents were female. The majority of respondents n= 59 (29.5%) were in the age category of 26-35 years. This was followed by two other age categories, 36-45 and 46-55, which accounted for n=57 (28.5%) and n=51 (25.5%) of the sample, respectively. In addition, 20 respondents (10%) indicated that they were in the age category of 56 years and older, 13 respondents (6.5%) were in the 20-25 year old category. Majority (n=107; 53.5%) of the SMEs employ between one and 49 employees, whereas 93 (46.5%) indicated that they employ between 50 and 200 employees. In terms the number of years SMEs were in operation, 63 SMEs (31.5%) were in business for more than 21 years, followed by those SMEs which were in operation business between 11 and 20 years (n=48; 24%) and those which were in operation between six and 10 years (n=45; 22.5%). Finally, those SMEs that were in operations for five years and less (n= 44; 22%) comprise a small part of sample. 5.2 Correlation analysis Before conducting a regression analysis, Spearman rho correlation coefficient was computed in order to ascertain the bivariate relationship of the eight factors of strategic planning and business performance. The Spearman's correlation is a non-parametric rank-based statistical test for unevenly distributed data (Zikmund et al., 2009). The Spearman's correlation was therefore used because the data was ranked and not normally distributed. The correlations

40 range from -1.0 for a perfect negative relationship to +1.0 for a perfect positive relationship

(Welman et al., 2005). The level of association between mission and vision, environmental formality of strategic planning process and business performance is summarised in Table 1. Table 1: Correlations and reliabilities-the three factors with business performance ES MV FS BP Environmental scanning (ES) 1 Mission and vision (MV) .473** 1 Formality of strategic planning (FS) .654** .510** 1 Business performance (BP) .548** .424** .579** 1 Cronbach alpha reliability 0.91 0.86 0.84 0.89 **

22 Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed). The results presented in Table 1 show that

the correlations between business performance the predictors namely, environmental scanning (r=.55), business mission and vision (r=.42), formality of strategic planning (r=.58), are positive and significant. Similar findings about the positive correlation between these

85 strategic planning dimensions and business performance

are reported by other scholars such as Mclquham-Schmidt (2010). Efendioglu and Karabulut's (2010) study also highlights the positive correlation between these strategic planning activities and business performance. 5.4 Regression analysis Having established the strength of correlations between the variables, the study proceeded to conduct a regression analysis as correlations analysis only measure the strength of a relationship but fail to determine predictive relationship between variables. The constructs, mission and vision, environmental scanning and the

63 formality of strategic planning were used as independent variables and subjective business performance

72 was used as a dependent variable. Table3 presents the regression results

showing **the**

predictive power of each factor on business performance. Table 2 Regression analysis between the three factors and business performance measures Dependent variable: Business performance Independent variables Std. Error Beta t-value p-value Factor 1(Environmental scanning) .055 .090 1.105 .271 Factor 2(Business mission and vision) .045 .082 1.327 .186 Factor 3(Formality of strategic planning) .060 .270 3.645 .000* R=.70 R²=.49 Adjusted R²= .47 F= 22.88. * significant at

70 **p<0.05** The regression **results** depicted in **Table 2** show that the

independent variables had an adjusted R² value of 0.47 which implies that the three factors explained approximately 47% of the variance in business performance of SMEs. The beta coefficients reveal that

82 **formality of strategic planning** makes **a** more significant contributions **to the** business performance **of**

SMEs ($\beta=0.27$, $p<0.05$), than environmental scanning

56 ($\beta=0.09$, $p>0.05$), and mission and vision ($\beta=0.08$, $p>0.05$). The

importance of formality of strategic planning as a predictor of business performance is also supported by theory. A study of small business formal and non-formal planners by Kraus et al. (2006) revealed that formal planners were able to grow twice as much as non-planners. While these environmental scanning and mission and vision factors showed an insignificant relationship with business performance, they did not show a negative relationship with business performance, but instead made very small contribution towards business performance. A study by Karami (2008) found that in today's high levels of competition, and uncertainty, businesses scan the environment to improve their competitiveness. Popoola's (2000) study of corporate banks in Nigeria revealed that environmental scanning enables banks to gain competitive advantage. With regard to business mission and vision, Forbes and Seena (2006), Mazzarol et al. (2009) and Kantabutra (2008) confirm that a business mission and vision statement enhances business performance as it guides in decision making, motivates and inspires personnel. 5.5 Testing of hypotheses and outcomes Hypotheses one to three were tested using correlation and regression analyses. The outcomes of the correlation and regression tests are depicted in Table 3 Table 3 Hypotheses testing and outcomes Hypothesis Decision H1: The use of mission and vision statements positively influences SME business performance. Hypothesis accepted H2: Scanning the business environment has a positive impact on SME performance. Hypothesis accepted H3: The more formal the strategic planning process is, the higher is the performance of SMEs Hypothesis accepted The results in Table 3 show that mission and vision, environmental scanning and formality of strategic planning

31 **have a positive association** and predictive relationship **with** business **performance**

of SMEs. 6.

53 **RELIABILITY AND VALIDITY** The internal consistency (**reliability**) the constructs **was** established **by** calculating **the Cronbach alpha coefficient**.

As indicated in Table 3, the overall coefficient alpha for the constructs was 0.93, while the coefficient alpha for business performance factors was 0.89. The coefficient alpha values for mission and vision, environmental scanning and formality of strategic planning were 0.86; 0.91; and 0.84 respectively. The Cronbach reliability values for these three predictors and business performance factors were above the acceptable benchmark of 0.70 (Bryman and Bell 2007). Discriminant and construct validity were tested by conducting exploratory factor analysis. At each stage, scale purification was carried out to remove the items from the research instruments in order

71 **to improve the discriminant and construct validity**. The removal of **the**

items was done

7 **until all** the **items** showed **acceptable levels of discriminant validity** (which means **all the items** only **load on a common factor** without **cross loadings**) and **construct validity** (which implies that **all items relating to one dimension have factor loading of at least 0.40**) (Dhurup, 2012). **The**

results confirmed both discriminant and construct validity for both strategic planning and business performance scales. Through the computation of correlation analysis, the three independent factors showed convergence with the business performance thus providing evidence of convergent validity. Predictive validity was tested by the regression models. The regression results indicate that the factors correlated with business performance. 7. RECOMMENDATIONS The results infer that increased practices of mission and vision, environmental scanning and formality of strategic planning lead to high levels of business performance. It is therefore important for SME owners and managers to understand these strategic planning factors in order to establish how to apply each factor to improve the performance of their businesses. A business should implement all the three factors as each factor can assist to enhance the performance. In terms of the regression analysis, the results indicate that the formality of strategic planning process is the most influential dimension to improve business performance. In this regard, SMEs should prioritise the implementation of this dimension. The positive relationship between these factors and SME performance should encourage SMEs to embrace them. By doing so, SMEs can enhance their performance, increase their chances to grow, and consequently strengthen their competitive advantage and prosper within the national economy. Due to the increased complexity of their competitive environment, strategic planning in SMEs need to be more formalised. Although not a panacea to business success, having a formalised and documented strategic plan will enable SMEs to communicate their intentions and to meet the requirements for government grant and bank loan applications. A formal strategic plan is also

32likely to require the owner/manager of the SME to review the business' vision, mission, and the external market

conditions (Mazzarol et al., 2009). It is also recommended that policy makers and academics assist SME owners/managers through education programmes that train them to draft strategic plans. There is need for businesses to scan the environment due to high levels of competition, uncertainty and turbulence. This will assist them to gather information from the environment that is useful in strategic planning (Karami, 2008). Many owners/managers of South African SMEs seem to lack knowledge about the application of some environmental scanning techniques, as they indicated that they make use of only a few of them, namely SWOT and PEST analyses. Most of the techniques

28such as Porter's five competitive forces, value chain analysis,

the gap analysis and benchmarking, are rarely used by these SMEs. It is recommended that in order to address this knowledge gap, the government can assist by providing training on basic strategic planning education. This can be realised through funded or subsidised workshops, short courses, flexible university or college courses. This may help to improve the environmental scanning skills and knowledge of SME owners and managers. In order to establish a common purpose, inspire and motivate personnel in the business, (Forbes & Seena, 2006), SMEs need to increase the usage of

75mission and vision statements. According to Mazzarol et al.

(2009), SMEs need to

32recognise the importance of having a clear mission and vision

statement, which is communicated to the employees. Being mission and vision driven will help them to have more focus about their long-term future, and hence goal achievement. 8. LIMITATIONS Although the study provides fruitful insights regarding the impact of mission and vision, environmental scanning and formality of strategic planning on business performance within the SME industry, it is not without limitations. Data was gathered from only a limited number of respondents and SMEs in Gauteng province. Hence, the results cannot be generalized to all SMEs in the country. Replication of this study is therefore warranted within the SME industry because this research has been exploratory in nature; future development of the robustness of the scale is required as this study is a valuable first step towards a better understanding of strategic planning dimensions. A possible direction for future research is to conduct a similar study in other provinces in South Africa or in other developing countries like Zimbabwe in order to examine similarities and differences. Future studies should also make a comparison amongst different types of industries. The reliance on the subjective views of SME owners/managers is a limitation in the study in terms of generalisation of the results to other SMEs because they could have different views about

64strategic planning and business performance. 9. CONCLUSION This study examined the influence of

mission and vision, environmental scanning, and formality of the

9strategic planning process on the performance of SMEs in

Gauteng province, South Africa. The study also confirmed that of these factors formality of strategic planning, makes a more significant contribution to SME performance. Therefore it is important for SMEs to prioritise this factor when they implement strategic planning in order to enhance their performance. This study can serve as a guide to SMEs owners and managers to properly implement mission and vision statements, environmental scanning and a formal strategic planning process, which will enable the SME to play an increased role in the economy. Through the use of these factors, South African SMEs and in other countries may be cushioned from the dynamic, highly competitive and unstable business environment. 9.

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