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Cheng Wei Hin and **Abdul Manaf Bohari** (School of Business Management, UUM College of Business, Universiti Utara Malaysia)

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Author(s)

Cheng Wei Hin and
Abdul Manaf Bohari
School of Business Management,
UUM College of Business,
Universiti Utara Malaysia

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Abstract

The study examined whether small medium enterprise (SME) in the northern states of Malaysia do strategic planning and if they do, does the Wheelen and Hunger model (2008) applies so them. A total of 108 respondents which were from SMEs in Perlis, Kedah and Penang are participated in this research. Results of the study showed that SMEs do have strategic planning and more than half said that their strategic planning process resembled the strategic planning model of Wheelen and Hunger (2008). The strategic planning process of the SMEs was not much different from that of the Wheelen and Hunger (2008) model.

Keywords: Small medium enterprise, strategic planning, strategic planning model

Introduction

Organizations today operate in an ever-changing global economy consisting of worldwide customers and competition. Many organizations offer similar products and services are competing for the highest possible margin for profitable results. No matter what size of business, whether small, medium or large the single determinant of the success or failure of business is held in the hands of the customers.

A strategic plan is a written document for a company for planning future growth and profitability and as such key to the management success to get more customers. For small business enterprise, strategic planning is especially important because small businesses are extremely vulnerable to the smallest changes in the place. Most importantly, strategic planning is a “blueprint” to help develop and maintenance of a superior competitive advantage at the market place.

A Strategic Management Planning Model provides a clear indication of the complexions and the linear approach that serves an ideal planning (Wheelen and Hunger, 2008). Most Strategic Management text suggests models of strategic planning for organizations all around

the world. Are these models applicable to all business organizations big or small? Are these models useful for organizations in the Asian context as most of these models were suggested by western scholars? Although many research have been done on whether small and medium enterprises do strategic planning, this research looked into the applicability of western Strategic Planning model suggested by these scholars. In this study the model which was suggested by Wheelen and Hunger (2008) was utilized.

Motivation of study

The notion that strategic management is an important management process that can help firms manage their resources, develop competitive advantage and create their future has resulted in extensive literature in this area. While a number of empirical studies have investigated strategic management practices in large firms, researchers in this area had found conflicting results, with some arguing SMEs has formal strategic planning while others argued that formal strategic planning has little practical relevance to SMEs (Robinson, *et al.*, 1984). This study initiated an attempt to address this issue.

This research addressed the issue whether formal model of Strategic Management

suggested by western scholars is useful to small medium enterprises (SME) in Malaysia. Hence, the problem statement for the research was to examine whether SMEs do strategic planning and whether formal strategic planning model suggested by Western scholars like Wheelen and Hunger (2008) model applies to them.

Literature Review

Small and medium enterprises are considered backbone of economic growth in all countries. They contribute in providing job opportunities are as supplier of goods and services to large organizations. SMEs are defined by a number of factors and criteria, such as location, size, age, structure, organization, number of employees, sales volume, worth of assets, ownership through innovation and technology.

Majority of SMEs have simple systems and procedures, which allows flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs than larger organizations. In spite of these supporting characteristics of SMEs, they are on tremendous pressure to sustain their competitiveness in domestic as well as global markets. Owing to global competition, technologies advances and changing needs of consumers, competitive paradigms are continuously changing. These changes are driving firms to compete, simultaneously along different dimensions such as design and development of product, manufacturing, distribution, communication and marketing.

According to Hashim (2011) SMEs in Malaysia represent majority of the business enterprises in Malaysia and they make up more than 90% of the total number of businesses and they can be found in various industries. 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

In recent years, SMEs in Malaysia is facing challenges arising from a more integrated and liberalized world (for example AFTA, or the ASEAN-China free trade agreement), should consider networking and forming strategic

alliance as viable options. In Malaysia,. The National Small and Medium Enterprise development council plays an important role in SME development and functions.

Prior literature has consistently claimed that SMEs in general do not engage in formal strategic planning (Stoner, 1983; Shrader, 1989; Sexton and Auken, 1985; Robinson *et al.* 1984; Hidde and Masurel, 2000; Stoner, 1983). Even those SMEs that attempt to plan strategically tend to only do so sporadically and inconsistently (Sexton and Auken, 1985). Often, SMEs operators do not actively engage in strategic planning due to the many constraints such as a lack of time, expertise, resources and the eagerness to centralize decision making (Robinson *et al.*, 1984; Mulford *et al.*, 1989; Shrader *et al.*, 1989; Jones, 1982).

Results in the past studies (Hashim and Zakaria, 2010; Hashim and Wafa, 2003) found that strategic management is strongly related to the financial performance of these SMEs. These researches also suggested that more and more owners and managers of small business are adopting strategic management in their business operations.

By adopting strategic management, small business owners not only learn about their business environment, but also develop the skills and knowledge that enable them to manage their business more effectively and efficiently (Hashim, 2008). For continuous improvement and change, SMEs have to benchmark themselves with the best in industry. They will be major guiding force for deciding strategies and priorities. Based on these priorities, organizations have to adopt different processes and management practices. Effective implementation of these processes will lead to performance improvement.

Wheelen and Hunger (2008) noted 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 scope

of the strategic management process (Figure 1) covers organization-wide issues in the context of a whole range of environment influences. The strategic management process involves organization, management and the 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.

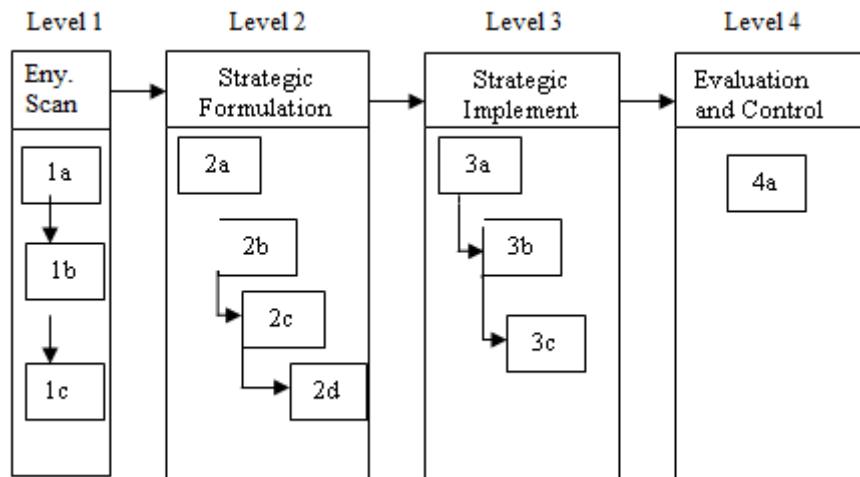


Figure 1: The Wheelen and Hunger Model of Strategic Planning

Legend:

- 1a to 4a are tools for each level of strategy planning
- 1a: external environmet (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)

Methodology

This was a descriptive study which attempted to examine whether SMEs do strategic planning and how the strategic planning process was done. This was field study where all variables were not manipulated, thus no artificial setting was created. The sample of this study consisted of SMEs in the northern region of Malaysia. These SMEs covered those in the States of Perlis, Kedah and Penang. The population of the samples was derived from the directory of Small Medium Enterprise provided in the website .The unit of analysis was organization

A purposive sampling (Sekaran, 2003) was chosen as the sampling design for this study.. This was because companies that were chosen have to qualify certain requirements before they were considered as SMEs .This was a cross

sectional study (Sekaran, 2003) where data was collected over a period of weeks. In this study, data was gathered from to September 2010.to December 2010.

As this was a descriptive research to find out if SME do strategic plan and how they did the planning, there were no hypotheses testing. Respondents were asked on whether they do strategic planning and whether they used each tools (as suggested by Wheelen and Hunger (2008) to do their strategic plans for each stage of the four stages of the strategic plan. The four stages of strategic planning were environment planning, strategy formulation, strategy implementation and strategy evaluation and control. The strategic planning questionnaire was operationalized using the Wheelen and Hunger model (2008). At each stage respondents were asked if they used the

strategic planning tools suggested by the model by Wheelen and Hunger (2008).

The Wheelen and Hunger Model for strategic planning (2008) was shown to the respondents in Part C of the questionnaire and respondents were asked if their strategic planning resembled the model. If their strategic planning did not resemble the model, they were again asked which stage of the strategic plan was different from their strategic plan. Hence the questionnaire were designed in four parts namely Part A with questions about the tools of strategic planning like whether respondents used vision, mission, objectives and strategies for their strategic planning, Part B discussed about environment scanning and the elements to be considered during the scanning process. In Part C respondents were given the model of Wheelen and Hunger and asked whether their strategic planning process resemble that of the model and if it did not resemble their strategic planning process where or how it was different. Finally in Part D respondents were asked to provide the profile of themselves and that of their companies.

Data in this study was collected via mail questionnaires and individual administered questionnaire. An official letter and a research proposal which explained the objectives of the study which seek the SMEs participation were sent to selected companies and through the assistance of students. Through mail, about 300 companies were informed to participate in the study. The survey questionnaire was mailed directly to the companies and companies were given one week to answer the questionnaires. The questionnaires were returned directly to the researcher using the self-addressed envelope provided. In addition to this, students assisted in the distribution of questionnaires and some respondents were visited individually to obtain their responses.

Respondents' demographic variables were analyzed using descriptive statistics such as frequencies and percentages. Other items that were measured based on the six point Likert scale hence a ordinal measurement scale have

been used in the research instrument. Due to this reason, only non parametric tests such as chi squares were performed to analyze the results

Findings

A total of 300 questionnaires were mailed to SMEs in the Northern states (Perlis, Kedah and Penang). 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%.

Demographic profile of respondents

Table 1 depicts the demographic profile of companies. As revealed in Table 1, in terms of state, out of 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 respectively. 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 RM 50,001-RM100,000, while 26 companies (27%) have a start-up capital of RM 101,000 – RM500,000. There were only 17 companies (16%) with a 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.

Table 1: Descriptive statistics of respondents

	Frequency	Percent	Valid Percent	Cumulative Percentage
State				
Kedah	52	48.1	55.3	55.3
Perlis	33	30.5	35.1	90.4
Penang	9	8.3	9.6	
Total	94	86.9	100.0	100.0
Missing	14	12.9		
Total	108	100.0		
Industry				
Furniture	5	4.6	4.8	4.8
Cosmetic	7	6.5	6.7	11.5
Motor Vehicle	3	2.8	2.9	14.4
Hotel	8	7.4	7.7	22.1
Education	1	0.9	1.0	23.1
Others	80	74.1	76.9	100.0
Total	104	96.3	100.0	
Missing	4	3.7		
Total	108	100		
Owner				
One	45	41.7	41.7	41.7
Two	39	36.1	36.1	77.8
Three	16	14.8	14.8	92.6
Four	3	2.8	2.8	95.4
Five	5	4.6	4.6	100.0
Total	108	100.0	100.0	
No of Staff				
10-50	63	58.3	58.3	58.3
51-100	33	30.6	30.6	88.9
101-150	6	5.6	5.6	94.4
151-200	2	1.9	1.9	96.3
201-250	4	3.7	3.7	100.0
Total	108	100.0	100.0	
Capital				
Less than RM50,000	34	31.5	31.8	31.8
RM50,001- RM100,000	28	25.9	26.2	57.9
RM100,001-RM500,000	28	25.9	26.2	84.1
More than RM500,000	17	15.7	15.9	100.0
Total	107	99.1	100.0	
Missing	1	0.9		
Total	108	100.0		
Years of establishment				
1-3 years	17	15.7	15.9	15.9
4-6 years	26	24.1	24.3	40.2
7-9 years	10	9.3	9.3	49.5
10-12 years	17	15.7	15.9	65.4
13-15 years	11	10.2	10.3	75.7
16-18 years	11	10.2	10.3	86.0
19-21 years	5	4.6	4.7	90.7
More than 21 years	10	9.3	9.3	100.0
Total	107	99.1	100.0	

Missing	1	9		
Total	108	100.0		

Based on the position held in the company, the table 2 below shows that 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%).

Table 2: Descriptive statistics of respondent’s positions

	Frequency	Valid Percentage
CEO	17	16.3
Managing director	27	26.0
Sole proprietor	17	16.3
Senior manager	9	8.7
Manager	17	16.3
Others	17	16.3
Total	104	100.0
Missing	4	
Total	108	100.0

To answer the first research questions i.e. “Do SME does strategic planning?” A cross tabulation was done between Question B8 (QB8): Does your company do strategic planning and Question B10 (QB10): Does your company formulate strategy to achieve the objectives in the strategic plan? Based on the Table 3 below it was found that 76% of the companies do strategic planning and they do formulate strategies to achieve their objectives.

Table 3: Cross tabulation question B8 and question B10

B8 Do Strategic planning	B10 Formulate Strategies		
	Yes	No	Total
Yes	77 75.5%	10 9.8%	87 85.7%
No	6 5.9%	9 8.9%	15 14.7%
Total	83 81.4%	19 18.6%	100 100%

Chi square result

A further Chi Square Test result depicted in Table 4 between these two questions (QB8 and QB10) produced the following result. The Chi Square result was significant, $r = 0.000$ at $p <$

0.001 . This test showed that if most company do have strategic planning, they will have a tendency to formulate strategy to achieve their plans.

Table 4: Chi square test question B8 and question B10

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	19.859	1	.000		
Continuity Correction	16.788	1	.000		
Likelihood Ratio	15.818	1	.000		
Fisher’s Exact Test					
Linear-by-Linear					

Association	19.665	1	.000	.000	.000
N of Valid Cases	102				

Table 5 below produced the results for B10 and B13. It is shown here that there are 35 companies which formulate strategy to achieve their objectives and which think that strategy formulation to the company is important. There

are 42 companies which stated that implementing strategy is very important to them and they formulate strategy to achieve their objectives,

Table 5: Cross tabulation between question B10 and question B13

B 10: Formulate Strategy	B13 Important to Implement Strategy				Total
	Not Important	Neutral	Important	Very important	
YES	2 2.0%	5 4.9%	35 34.3%	42 41.2%	84 82.4%
NO	0 .0%	5 4.9%	7 6.9%	6 5.9%	18 17.6%
Total	2	10	42	48	102
Count % of total	2.0%	9.8%	41.2%	47.1%	100.0%

A further Chi Square result in Table 6 showed that if the company formulates strategy to achieve their objectives there are tendency they

will think that formulating the strategy is important. The Chi Square result is significant at $r = 0.04$; $p < 0.05$ level.

Table 6: Chi square test question B10 and question B13

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.534	3	.036
Likelihood Ratio	7.184	3	.046
Linear-by-Linear Association	3.116	1	.078
No. of Valid Cases	102		

How do respondents/ SME perceive western management style of strategic management?

To gauge the respondent’s feedback on this, respondents were asked: Question B18: How important is Western Management Models and Styles of Strategic Management to your? From

the cross tabulation and chi-square results between: QB10: Does your company formulate strategy to achieve your objectives and QB18: How important do you perceive Western Management Model of Strategic Management?, the following results were produced:

Table 7: Cross tabulations of QB10 and QB18

B10: Formulate strategy		B18: Important of Western Mgt Style	Total
		Very important	
B10	Yes Count % of Total	13 12.7%	84 82.4%
	No Count % of Total	2 2.0%	18 17.6%
Total Count % of Total		15 14.7%	102 100.0%

The result in the table shows that only a total of 13 respondents or 12.7% out of 102 respondents who formulate strategies think Western Management Model of Strategic Management

is important to them The Chi-Square test result of the two questions was not significant as shown in Table 8 below.

Table 8: Chi square test of QB10 and QB18

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.521	4	.340
Likelihood Ratio	3.957	4	.412
Linear-by-Linear Association	3.451	1	.063
N of Valid Cases	102		

Results of Question C1: Does the Wheelen and Hunger Model diagram resemble your company's strategic management planning?

There are 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. The results are depicted by the table below:

Table 9: Frequency table for QC1 (Does the Wheelen and Hunger model resemble your company's strategic management planning process?)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	59	54.9	54.9	54.6
No	49	45.4	45.4	100.0
Total	108	100.0	100.0	

Results of Question C2: If your Strategic Planning Process does not resemble the diagram given, which step or process is not the same?

For this question, the following results were obtained:

Table 10: Frequency table for QC2

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1 environment scanning	16	14.8	14.8	14.8
2 formulation stage	13	12.0	12.0	26.9
3 implementation stage	7	6.5	6.5	33.3
5 com (1and3)	2	1.9	1.9	35.2
6 combination (2&4)	1	.9	.9	36.1
7 combination (2&3)	7	6.5	6.5	42.6
9 combination (2&3&4)	2	1.9	1.9	44.4
10 combination (1&2&3&4)	4	3.7	3.7	48.1
11 All the same	56	51.9	51.9	100.0
Total	108	100.0	100.0	

Out of 49 respondents who answered no, 14.8% said that the environmental scanning stage does not resemble that of the model, 12% said that

the formulation stage does not resemble their strategic planning process while 6.5% said that their strategic planning process implementation

stage does not resemble the Wheelen and Hunger Model.

Only 3.7% respondents said that the whole model (stage 1 – 4) does not resemble their strategic planning process. Of those who agreed that the model resemble their strategic planning process, 52% said that the model exactly resemble their strategic planning.

A Chi Square test was conducted to see if for those who think that if their strategic planning process resembles the Wheelen and Hunger Model, will there be tendency that it will

exactly follow the Strategic Planning Model suggested by Wheelen and Hunger (2008).

The Chi-Square Test result provided below is significant at 0.000 ($p < 0.001$); which suggest that if the SME do strategic planning, it will follow Wheelen and Hunger (2008) model.

Table 11 Chi Square For QC3.(If strategic planning process resembles Wheelen and Hunger Model, there will be tendency it will exactly be the same as their strategic planning process)

Table 11: Frequency table for QC3

	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		

Discussion

In this study, most SMEs were found to have strategic planning. It was discovered that most of them not only do have strategic plans they also have the tools to do strategic planning like formulating visions, missions ,objectives, policies, budget and procedures in their strategic planning process. The chi-square results between having objectives and tendency to formulate strategy was significant, This finding was consistent with previous researches (David, 2008; Hill, 2008; and Peace and Robinson, 1984) whereby companies which have objectives will usually formulate strategies to achieve these objectives. Companies which formulate strategy to achieve objectives were also found to state that they think that strategy formulation is important.

Consequently, company which formulated strategies was found to have specific approach for strategy implementation. This is also consistent with the results of David (2008), Hill (2008) and Pearce and Robinson (1984). The results for Chi-square test were also significant.

In order to see research question 2: Do SME apply the Wheelen and Hunger model the respondents were asked on questions at of the four stages of the Wheelen and Hunger model. In the Wheelen and Hunger model stage one, environment scanning, respondents were asked if their company conduct environmental scanning and if they did what the environmental factors that they considered most important were.

Out of the 108 respondents interviewed, most of the respondents agreed that they did scan the environment and the factors of the external environment according to their importance were (1) economics situation (2) bargaining power of supplier (3) bargaining power of buyer (4) financial institution and (5) technological factors.

The findings were consistent with Hashim (2010) who stated that the economic conditions in which the SME operate has clear significant impact to the action of their owners and managers. This finding was also consistent with some studies who advocated

that the economic sector was the most important in the industry competitive position of a company.

In the internal environment scanning, companies which participated in the research felt that in levels of importance, the first most important internal environment factors was financing their business, followed by products, skills, values, communication and system. In other words to the SMEs, the most important internal environment factor was getting finance to finance their business and marketability of their products. This was followed by skills of their staff and values of their company, communication in the company, system and management style.

This finding provided the support for earlier research which emphasized the importance of having scan their internal environment to understand their strengths and weaknesses as espoused by the Resource Based Theory. The Resource Based Theory emphasized the need of the firm to know their strengths in terms of the resources, capabilities and competencies that they have and the firm need to scan the internal environment. Most companies interviewed also have visions and missions' statements in their strategic plans, objectives were formulated to achieve the missions and vision as indicated by Wheelen and Hunger's model of strategic planning stage 1- environmental scanning.

Therefore, in conclusion, for research objective 2: How do the SME do strategic planning? The findings indicated that most SMEs have strategic tools like mission, vision, budget, programs and procedures to carry out their strategies which consistent with what were stated by earlier research- most companies adopt the learning process or approach in strategic planning.

For research Question 2: In order to know if SMEs follow the model of Strategic Planning suggested by Wheelen and Hunger's model, respondents were asked if their strategic planning process resembles that of Wheelen and Hunger (2008) model.

The findings indicated that more than half the respondents i.e. 59 out of 108 indicated that their strategic planning do somewhat resembles the Wheelen and Hunger Strategic Planning model. Of those 52% who agreed that the model, resembled their strategic planning process, they were of the opinion that the model is 100% resembles their planning process.

Based on all these findings, we can said that Western model of strategic planning like Wheelen and Hunger model of Strategic Planning Process is applicable to the SMEs in the northern states of Kedah and Perlis in Malaysia. These findings also indicated that companies are using learning approaches to strategy. They will cite vision/mission statement and business objective as part of their strategic plan. In addition, greater use of strategic planning tools would facilities organization learning, enhance strategic thinking, and reduce failure rate among SMEs.

There is a strong positive indication that the theory and model of Strategic Planning of Wheelen and Hunger is applicable to the practice of SMEs in the northern region. Hence the implication to theory for this research is that although some theories and model may be written by Western scholars, they are still applicable in the Asian context.

This research also suggested that more SMEs are using strategic planning tools like vision, mission, objective, program, budgets and procedures in doing their strategic planning. This research also indicated that most SMEs in the northern states are now more systematic in their strategic planning and many are aware of the strategies planning tools like policy, program budget and procedures in planning their strategies. The findings also proved that SMEs in the northern states have improved the way they do their strategic planning and they are using the learning approaches to formulate strategies. In addition to this we can also say that, most of them used strategic planning tools to increase professionalism and reduce failure rate of planning. Their strategic planning process is now more systematic.

This study also proved that strategic planning model that was developed in the context of large firms do apply to the smaller enterprises. However, although the research found that Western model of Strategic Management was used or emulated in strategic planning, in the northern states, more than half of the respondents did not think that western strategic planning model or styles is important.

Conclusion

There are a few limitations that have been identified in this study. First, the respondents in this study only covered the Northern states of Malaysia, mainly Kedah and Perlis. Respondents from Penang were under represented with only 7 respondents. Therefore, the findings from this research cannot be generalized to all SMEs in Malaysia. In addition, the sample in this study was selected only from those registered in the SME directory. As a result, the findings obtained did not include those which are not registered in the SME directory.

Third, the study focused on the Wheelen and Hunger (2008) model which is a widely used academic model. However this model may not be perceived as a well known model to the SMEs. Fourthly, the small and insignificant sample from Penang showed that perhaps the mailing method to gather data and responses from the respondents may not be effective. Hence for future research, the one to one interview method may be recommended to solicit more responses from the respondents.

In terms of measurement the six point Likert scale which only allow non parametric statistical analysis to be used can be further improved using the interval or ratio scales. Future research should also be done on a greater scope covering the whole Malaysia and a better scale of measurement could be utilized to gather richer information for statistical data analysis. The research can

also cover different Strategic Planning models discussed in the theory.

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