Effect of Business Planning on Business Performance among Small and Medium Enterprises; A Case Study of Selected SMEs in Ghana

Victor Osei Poku¹, Emmanuel Jeffrey Dzage², Dr. Wilberforce Owusu Ansa³

¹MSc, Industrial Finance and Investment, Ghana College of Nurses and Midwives/PNEP
²MBA, Management and Organizational Development, Department of Human Resource Management and Organizational Development, Kwame Nkrumah University of Science and Technology, Kumasi
³Head of Department, Department of Strategic Management and Marketing, Kwame Nkrumah University of Science and Technology, Kumasi

Abstract: Strategic planning has been found severally by a number of studies to be a necessary precursor of organizational performance and as such, the concept has become an important aspect of business management that is often resorted to in order to achieve sustainable growth. Nonetheless, while many scholars have demonstrated that strategic planning is a salient factor that contributes to business performance, others are of a contradictory view. Based on this backdrop, the study examined the effects of business planning on the performance of selected SMEs across three metropolises in Ghana. Among the specific aims of the investigation, the researcher set out to examine the relationship between business planning and the performance of SMEs as well as assess the challenges of business planning among the SMEs. The study employed a purely quantitative approach in acquiring and processing the numerical data acquired from 150 SMEs sampled through a purposive sampling strategy. The principal findings of the study reveal that, although some considerable numbers of the surveyed SMEs (57.3%) are engaged in business planning processes, 50% of these businesses are unable to achieve their strategic business goals. The study also established a strong and positive relationship between strategic business planning and business performance although it identified that, a major challenge of business planning among the firms surveyed is access to credit.

Keywords: Business planning, Business Performance, Strategy, Small and Medium Enterprise, Ghana

1. Introduction

Over the past decades governments, development partners, technocrats including experts in academia have highlighted the significant contribution of small and medium scale enterprises (SMEs) in strengthening a country’s economy. No wonder, SMEs outnumber the multi-national businesses on the world’s business stage as statistical estimates suggest that, SMEs constitute about 95% of business ventures worldwide and collectively universally account for over 60% of employment in the private sector (Ayyagari et al., 2011). Justifiably so and owing to the immeasurable contribution of SMEs to the world’s economy, issues pertaining to their growth and performance have assumed a major area of scholarly interest globally (Nkpah, 2016). As ever, a number of theories have been and continue to be advanced to explain why some SMEs achieve better outcomes compared to their counterparts by drawing on competitive strategies while others (eg. Priem & Butler, 2001; Rouse &Daellenbach, 2002) concentrate on firm-specific resource capacities.

While the crucial relevance of these theories cannot be overemphasized, what is worth noting is that, managing any business firm can be an extremely complex undertaking which encompasses value systems, strategies, processes, people, choices and other stakeholder objectives that need to be realized (Shahin, 2011). Consequently, it is frequently almost impossible to satisfy all stakeholders’ demands since achieving one is certain to provoke some reactions from those who have different expectations they deem more important. Very often therefore, business managers fall on the grand promise of business planning to enable them manage the interconnected interrelationships in a quest to deliver value to each of these stakeholders (Falshaw, Glaister&Tatoglu, 2006).

Recent research endeavours herald some scholarly advocacy of a planning paradigm among SMEs(e.g. Brinckmann, Grichnik&Kapsa, 2010; Burke, Fraser & Greene, 2009; Delmar & Shane, 2004; Shane & Delmar, 2003). While there are two schools of thought engaged in a dragging debate on the value of planning for firm performance, recent trends suggest that this dialogue has much more intensified (Bhide, 2000; Sarasvathy, 2001; Delmar & Shane, 2003; Gruber, 2007; Brinckmann et al, 2010). Those scholars who advocate for deliberate planning and strategy implementation identify that, planning enhances faster business growth because resources are put to a more effective use while decision speed is increased in a manner that allows for better flexibility (Delmar & Shane, 2003).

On the other hand, those who are opposed to the strategic planning school of thought explain that, committing organizational time and assets to a strategic thinking often only yields rigid policies, organizational inertia, limited strategic flexibility and a futile pursuit of uncertainty (Bhide, 2000; Vesper, 1993). What is more, various efforts targeted at undertaking some empirical inquiry examining the planning-performance relationship rather produced inconsistent results suggesting either a negative, insignificant or in some few cases, positive relationships between strategic business planning and business

Volume 9 Issue 2, February 2020

www.ijsr.net

Licensed Under Creative Commons Attribution CC BY
up to this point, what is clear in all the discussions is that, the strategic management literature is overwhelmed with a vast number of research that is focused on the nexus between business strategy, planning and firm performance albeit diverse and inconclusive scholarly findings on the matter. That notwithstanding, this study still finds it prudent to further explore this phenomenon especially in a manner that reflects the local context. The research is hence intended to provide some useful contribution to the on-going debate and to test the situation as it may prevail in the Ghanaian context.

**Research Objectives**

The chief aim of this study is to determine the effect of strategic business planning on the performance of business firms especially among SMEs. The detailed goals set out by the study however include examining the relationship between business planning and the performance of SMEs and also, assessing the challenges of business planning among these SMEs. The paper is structured in the following manner; a review of relevant literature along with the study’s theoretical framework, the methodology undertaken, the study’s results and discussions, conclusion as well as managerial implications along with some recommendations. The limitations and future research directions regarding this topic are also offered in the ending part of this paper.

2. **Literature Review**

**Defining Small and Medium Enterprises (SMEs) in Ghana**

Although a universally agreed characterization of what SMEs are is lacking, the concept has lent itself to several definitions. Consequently, a lot of scholarly attempts in this regard have focused on some themes such as the firm’s characteristics in terms of the founder’s motives, number of employees, number of branches, balance sheet and asset turnover, etc. (Chrisman, 2004). The definition of SMEs has also assumed some geographical influences. Gray and Cooley (1995) remarked that, in a number of developed countries, SMEs are described in terms of their returns or turnover. An often cited definition of SMEs is the one offered by the European Union (EU) Law in 2005 which Stokes and Wilson (2010) reinforced. This definition uses the employment figures, turnover and financial statements (or total asset balance sheet) of the firm to classify firms.

**Table 1: EU Law Classification of SME Definitions**

<table>
<thead>
<tr>
<th>Company Category</th>
<th>Employees (Headcount)</th>
<th>Turnover</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium-Sized</td>
<td>Less than 250</td>
<td>Less or equal to 50 million euros</td>
<td>Less or equal to 43 million euros</td>
</tr>
<tr>
<td>Small</td>
<td>Less than 50</td>
<td>Less or equal to 10 million euros</td>
<td>Less or equal to 10 million euros</td>
</tr>
<tr>
<td>Micro</td>
<td>Less than 10</td>
<td>Less or equal to 2 million euros</td>
<td>Less or equal to 2 million euros</td>
</tr>
</tbody>
</table>

**Source:** Stokes and Wilson, (2010)

In the Ghanaian context however, the SMEs’ regulatory body (the National Board for Small and Medium Scale Industries) explain that, there are a couple of indicators used in defining what an SME is. Such indicators include the firm’s level of fixed assets, employee size and balance sheet. In this regard Aryeetey (1995) for instance postulates that, an enterprise having twenty-nine (29) or less employees and also an asset base of GHC 100,000 or less is an SME. Agbenyo (2015) further justified that, as most output and service figures are not safely reliable in the Ghanaian context, SMEs ought to be conceived on the basis of characteristics other than the volumes of their assets, levels of sale and number of employees although these indicators may also be relevant. The author added that, SMEs should rather be defined along the lines of whether or not the owner is directly involved in the operational, administrative and commercial aspects of the business. Any such firm where the owner is involved in these activities fits to be categorized as an SME since large firms often have their owners only involved in administrative tasks but not involved in the production process.

The definition of an SME as used in this study is however restricted to the one provided by the Ghana Statistical Service (2002) that, a small firm is one that has less than ten (10) employees without regards to its capital base. This definition further disaggregates SMEs into three groupings; micro enterprises (with up to nine employees), small enterprises (who have employees ranging from ten up to ninety-nine people) and the medium enterprises (employing from one hundred up to four hundred and ninety-nine people). Though subjective to several weaknesses, a key strength of this definition is that, it lends itself to any sector of business easily and also recognizes firms with employees less than one hundred being a small business.

**Business Planning Differentiated from Business Plans**

Business plan and business planning are two identical constructs that are usually loosely assumed as synonymous with each other (Wijethunge & Pushpakumari, 2014). However, the two concepts connote different meanings in Strategic Management and Entrepreneurship literature and that line of distinction needs to be clearly drawn. Schwietje and Vaseghi (2007) defined a business plan as a physical document (often printed out) that commercializes the business and its proposed design in entirety. Becherer and Helms (2009) added that, the business plan is that formal document that finds and describes a good opportunity while proffering detailed strategic ways through which such opportunities could be pursued. The business plan is hence, a summary and evaluation of the thinking and projections done by the business owner and documented in order to develop the said idea. This document is consequently used as a strategic guide to provide information for future growth plans, potential partnerships and other investment decisions. It is organized in such a way that, all the factors necessary for the success of the proposed venture viz operations, finance, marketing and human resource among others, have been adequately covered (Zahorsky, 2015; Kaplan & Warren, 2013; Holtz, 1994).

Business planning (often synonymously called strategic planning) on the other hand combines the business’ strategy
and planning process (Leslie, 2008) in a manner that helps the organization get ahead and respond to the ever-changing environment. Johnson and Scholes (2004) opined that, strategic planning encompass a characteristically different process of decision making. It broadly decides in advance what the management of an entity must do and how it must be done (Bett, 2003; Smith, 1990).

Essentially, business planning is a grand process that defines a firm’s intention for realizing their mission and vision; an endeavour which typically yields a document known as the strategic or business plan. The business plan elaborates the premeditated direction intended for the organization to be run over a time period in a document form. Cassidy (2006) noted that, good strategic planning does not only take the status quo into consideration but also directs change of some kind. As such, it is prudent that strategic planning is tied directly to the divisional/unit level as well as organizational level in a manner that reflects the firms’ strategic needs (Gates, 2010). In this light, Nickols (2012) summarized that, strategic planning is different from business plans in the way that it recognizes a set of activities that must follow each other in a logical coherence. Putting all together, a business or strategic plan is an outline of steps or an initiative planned with the objective of the firm in entirety being its overall priority and is usually in the form of a codified document which defines a strategy for sailing through the unpredictable alternatives available to the firm now and in the future whereas strategic planning is more of a continuous management process which crafts a suitable organizational mission, long term objectives, environmental scanning, strategy formulation and implementation as well as managerial control among other things. Bryson (2004) summarized strategic planning as a set of deliberately consistent and disciplined efforts that are intended to produce the choices and engagements that guides the organization’s vision, mission and purpose.

Elements of Business Planning
The past few decades have seen a number of methodologies, perspectives and models developed and used to determine what should constitute the components of business planning as there is no particularly defined way to conclusively cater for the needs of varying cultures, leadership, environmental complexities, and organizational structures (Nauheimer, 2007). As alluded by Dooris et al. (2002), business planning still remains a relatively new management practice which typically lays out five elements of any firm; mission, vision, future direction, performance targets and strategy. This was further reinforced by Thompson (2004) who emphasizes that, planning a business is an undertaking that is intended to support an organization’s corporate mission, vision and objectives. Drucker (1999) prescribed that, for a business entity to achieve a harmonized and decisive business direction, its vision, mission and objectives must be connected. McNamara (2000) clarified that the dimensions of business planning models are either issue-based or goal-based, organic or scenario-planned. Whereas a goal-based plan is considered as the most popular technique that focuses on a company’s mission and action plan, organic planning is more concentrated on the very action plans outlined to achieve specific goals while adhering to the company’s values and mission. Four broad elements of business planning are identified from literature including organizational mission, vision, goals and objectives (Nutt &Backoff, 1995; Gantz, 2001; Rainey, 2009).

Organizational Mission
Pitts (2003) described organizational mission as a statement detailing the kind of business the organization is in, the targeted customers it intends to serve, and the skills that must be developed in order to fulfill its vision. An organization’s mission is therefore not time-bound. Ritson (2008) affirmed that, the mission statement links the organization to its vision; it describes the primary business or purpose for its existence, what it does, for whom and for what benefits (Daft, 1991). Ultimately, a firm’s mission statement is a summary of the overriding and distinguishing purpose for its existence (Johnson, 2002; Pitts, 2003).

Organizational Vision
The perfect situation or status that a firm strives to attain constitutes its vision. Essentially thus, organizational vision describes the business entity’s aspirations of what or where it desires to be over a period of time (Pitts, 2003). The vision of the firm connects it to future pursuits by outlining instances where its mission is successfully executed (Ketema, 2015). The firm’s vision hence serves as an inspiration achieved in a broader environment if the other units and stakeholders are successful in achieving their individual missions. The mission is intended to capture stakeholder imagination as well as galvanize the collective efforts of organizational members such that, its emotional ‘charm’ drives them to fully commit to it. The conceptual difference between an organization’s mission and vision outlook is that, while the mission is tuned to the organization’s present business and purpose, the vision portrays the future outlook of the firm (Thompson et al., 2004).

Organizational Goals and Objectives
An organization’s goals are the far-reaching and continuing undertakings that are intended to be achieved or at least, work towards attaining. While these goals are broader but measurable ambitions that support the achievement of a mission, the objectives are the more precise, quantifiable and lower-level targets that show that, a goal has been achieved (Ketema, 2015). According to Nickels et al. (2000), the organizational goals and objectives contextualize what its vision must realize. They are the ‘powerful tools’ that simplify the vision statement into specific tasks and actions for achieving desired results and they function as the benchmark by which performance progress is tracked (Thompson et al., 2004). Goals and objectives must be measurable, time-specific, realistic, achievable but also engaging enough to get employees to meet performance targets (Poku, 2012). Other authors however identify some other elements of business planning including guiding principles, enablers and barriers, organizational initiative, actions and performance measures (Gates, 2010; Ketema, 2015).

Relationship between Business Planning and Business Performance
Gruber (2007) recorded a number of studies (Delmar & Shane, 2003; Wagner, 2006; Ongonge, 2013) which have
generally deliberated on how issues of business planning (including dimensions such as strategic planning, formal long-term planning, marketing planning, etc.) impact organizational performance albeit within two related streams of management, strategy and entrepreneurship literature. Young (2003) offered an explanation to the construct of business planning by asserting that, it involves a properly calculated process towards determining a firm’s current status and preparing it towards where it wants to be in the future. The purpose of this endeavour Branka and Boštjan (2004) noted is to establish a clearer set of visions and objectives that all stakeholders could buy into.

Strategic or business planning has been found several impact firm performance positively (Rauch et al., 2000; Honig & Karlsson, 2004; Reynolds et al., 2000; Erikson, 2008; Dincer et al., 2006; Hussam & Raef, 2007; Wang et al., 2010). Long before these studies however, Wickham (1998) asserted that, strategic planning enhances organizational performance by compelling managers to continuously and proactively think about solutions to current and future business challenges. Added to the foregoing, Erikson (2008) argued that, when firms carry out business planning, it facilitates their effectiveness. By defining the firm’s goals, outlook and purposes, strategic planning would provide a consistently uniform direction to the various actors and stakeholders in a manner that enhances coordination and control of business operations. Similarly, Byrson (1989) argued that, strategic planning helps provide direction to management in knowing where the organization is headed and where to expend their energies.

Ongone (2015) opined that, business planning helps to tell the kind of business the organization is in, the targets it intends to achieve and how those targets could be achieved. The strategic planning process therefore helps in shaping a firm’s strategic choices by spelling out a systematic, logical and rational approach towards goal attainment. Dusenbury (2000) adds that, strategic planning is an endeavor that defines how performance is to be monitored and gives feedback on the planned targeted goal through performance measurement. It further provides a framework for the coordination and control of business operations, in setting objectives and making organization-wide decisions (Arasa & K’Obonyo, 2012). Honig and Samuelsson, (2011) also summarize that, planning helps to build a strong enough market positioning profile for a business.

In the midst of all the enumerated pay-offs accrued from business planning however, some authors hold the view that, strategic planning is not a widely-held practice among SMEs today as it yields little desired outcomes by taking up the limited time and resources of managers of SMEs. They also added that, business planning may result in excessive stiffness, organizational apathy and limited flexibility with no tolerance for innovation (Robinson & Pearce, 1984; Vesper, 1993; Bhide, 2000; Sarasvathy, 2001).

Measuring Business Performance
The concept of performance as suggested by Laitinen (2002) is “the ability to produce results in a dimension determined a priori, in relation to a target”. A well-organized system of performance measurement may therefore be the single most powerful mechanism at the disposal of a manager for an enhanced ability to implement firm strategy successfully. Laitinen (2002) further added that, “when financial and non-financial measures are incorporated in the same model, managers can study the firm’s performance in several areas simultaneously in order to enable an efficient strategic decision-making”. In this light, a balanced performance approach is necessary as reliable financial information on independent firms is very difficult to obtain (Wortman, 1994; Desso & Robinson, 1984).

Rauch et al., (2007) hold the view that, a firm’s performance and growth is an important indicator that is often used as dependent variable in business research. This construct however lacks one universal measure and although it is often viewed from several lens perspectives by different researchers, the various dimensions are often jointly considered to define firm performance. Rauf (2007) admits that, assessing a firm’s performance is often difficult but not elusive as the term performance connotes different business outcomes with varied dimensions. Rauf (2007) further argued that, managers often have the likelihood to act on their subjective sentiments when they compare themselves with the performance of other competitors. Guest et al., (2003) however presented a different when they stated that, objective measures are enduring in assessing performance and recommends combining the key organizational outcomes to measure organizational performance.

Contemporary studies (including Khan, 2010; Rauf, 2007; Sang, 2005) recommended using certain (blend of the subjective and objective) indicators such as financial, non-financial and business metrics gauging organizational performance. Whereas the financial indicators include levels of profit, volumes of sale, number of branches in addition to market share, the non-financial indicators encompass productivity levels, output quality, and other subjective behavioural measures like commitment, intention to quit as well as satisfaction. The operational indicators also include production flexibility, product cost, product quality, number of customers and product delivery (Khan, 2010; Nkpaah, 2015). In addition Hubbard, (2006) identified that some other scholars prefer to measure firm performance using the stakeholder theory of the balanced scorecard which takes into account employee output and representation, customer feedback, supplier input, government’s opinion, industry body’s views as well as local community opinions.

Strategic management theorists like Venkatraman and Prescott (1990) postulate that, there is a general scholarly agreement that, firms often adjust their competitive strategies to reflect the environmental requirements and stakeholder interests towards achieving increased performance. Consequently, financial records may not be the only reliable performance indicators for measuring business performance and as highlighted by Hilman and Keim, (2001), other aspects of firm performance are relevant to the continued existence and success of a business. To that end, this study adopts Steiner’s (1979) approach to measuring performance by using the firm’s perceptual indicators as has been widely adopted by a number of researchers (Nayyar, 1992; Tan & Litschert, 1994; Luo and Park, 2001) and found to be reliable.
Challenges of Strategic Business Planning

There are some challenges that restrain a smooth strategic planning regime as argued in literature. Ikoro and Nwosu, (2017) classified some of these challenges into three dimensions; the lack of accountability, the lack of commitment and the inadequacy of instructions to employees. On the lack of accountability score, Marx (2004) maintained that, strategic planning is often impeded by a lack of proper monitoring and feedback systems. Essentially, planning without a regular review erases possible corrective measures which could be made to the rather changing environment and operations of the business (Ikoro & Nwosu, 2017).

Management’s inability to commit to the process of business planning also pose a challenge to business strategy as found out by Ikoro and Nwosu, (2017). A manager who does not attach any importance to strategy formulation and implementation stands the risks of running a narrow accountability regime, experiencing a strict time limit on reviews and a rigid schedule for making possible changes to already running plans (Marx, 2004). Similarly, managers are often unable to anticipate the required training and instruction towards strategy implementation. This usually results in a mismatch between the anticipated outcomes considered during the planning stage and the actual outcomes realized from strategic planning choices (Al-Ghamdi, 2008).

Marx (2004) added two more challenges of strategic business planning including power and influence as well as organizational culture. By power and influence affecting business planning, the author meant that organizations are designed in a way that provide certain people some influences which makes them oppose any strategic change that threatens to disrupt these powers or influences (Marx, 2004). People have certain interests and expectations within an organization which must be protected and any attempt to implement strategic plans that diminishes their control within the firm would be frustrated by them (Nnabuife, 2009). Similarly, Marx (2004) again found that, strategic planning is also challenged by the status quo culture. Organizations need a cultural regime that supports the implementation of certain generic strategic plans which have implications for firm performance (Jones & Goldberg, 1999).

3. Conceptual Framework

Critically, the reviewed literature above indicates that organisations that have effectively and excellently incorporated business planning in their activities, register enhanced or better performance than those that do the opposite. Similarly, numerous research have also investigated the presumed relationship that exit between the dimensions or elements of business planning (mission statement, vision, goals and objectives) on firm performance. Most of these studies including, Alavi and Karami (2009), Gharleghi et al., (2011), Dermol (2012), Collins and Porras (1991), Green and Medlin (2003) posited a positive relationship between well-crafted mission statement and firm performance. Kantabutra (2006), Filion (1991), Kotter (1990), Westley and Mintzberg (1989) have also indicated that organisations with properly laid down vision has a significant effects on its performance.

However, other scholars such as Williams (2008), Bartkus et al., (2005), Sufi and Lyons (2003), Sidhu (2003) as well as Analoui and Karamin’s et al., (2002) investigations into the subject theorised a weak or no correlation, with instances where there existed some relationship between some of the elements, others proved negative. Accordingly, this study conceptualise that business planning dimensions; organisational mission statement, vision, goals and objectives have an effect on firm performance.

![Conceptual Model](image)

**Figure 1: Conceptual Model**
**Source:** Bart & Baets, (1998)

4. Methodology

The study was conducted among SMEs located in three metropolises; the Kumasi, Tamale and Tema metropolises in Ghana. Adopting a quantitative method with an exploratory design, a sample of one hundred and fifty (150) SMEs were selected for participation through a purposive sampling procedureowing to the fact that, they possess adequate specialist knowledge of the research area and with the confidence that, they are more likely to generate useful data for the study.

A structured questionnaire was used to collect data from the managers of the SMEs who consented to participate in the study. The questionnaire was comprised of the respondents' socio-demographic information, business adherence to formal business planning practices, business strategic planning and business performance (with regards to their financial and operational dimensions) as well as the challenges of business planning. The questionnaires were directly administered to the responding managers by the researchers themselves with some help from a team of trained research assistants. The data obtained were processed using the version 22 of the Statistical Package for Social Sciences (SPSS) software with the results summarized in tables for easier interpretation and presentation.

5. Results

Socio-demographic characteristics of the business managers and the SMEs

Among the demographic characteristics discussed here include issues about respondents’ age, gender and levels of education. The dominant age of the managers ranged between 32 to 38 years with more than half of the sample below age 40. Although there was a higher representation of
males (29.4% more males than females), the educational qualification of the respondents suggests that more than 50% of the sample have had at least, a tertiary education.

**Table 1: Summary of Respondents’ Demographic Characteristics**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age Range</td>
<td>18 – 24 years</td>
<td>2</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>25 – 31 years</td>
<td>29</td>
<td>19.3</td>
</tr>
<tr>
<td></td>
<td>32 – 38 years</td>
<td>58</td>
<td>38.7</td>
</tr>
<tr>
<td></td>
<td>39 - 45 years</td>
<td>43</td>
<td>28.7</td>
</tr>
<tr>
<td></td>
<td>46 years or more</td>
<td>18</td>
<td>12.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>Gender</td>
<td>Male</td>
<td>97</td>
<td>64.7</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>53</td>
<td>35.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>Respondents’ Educational Qualification</td>
<td>No Formal Education</td>
<td>8</td>
<td>5.3</td>
</tr>
<tr>
<td></td>
<td>Basic or Equivalent</td>
<td>23</td>
<td>15.3</td>
</tr>
<tr>
<td></td>
<td>Senior High or Equivalent</td>
<td>41</td>
<td>27.3</td>
</tr>
<tr>
<td></td>
<td>Tertiary of Equivalent</td>
<td>78</td>
<td>52.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>150</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Field Data, 2019, N = 150

There were also some fundamental inquiries regarding the business’ characteristics such as their length of existence, nature of business, the business’ estimated annual turnover, number of staff as well as the business’ registration status. The analysis shows that, while more than half of the businesses have been in existence between 1 to 6 years, a good number of them (32%) have been in existence for between 6 years or more. While more than 55% of the surveyed SMEs were reported to be from the service sector, the average annual turnover from more than 70% of the SMEs was less than $20,000. The majority of the SMEs (68.7%) also reported staff strength less than 10 people whereas more than 75% of the businesses were either registered as sole proprietorships or limited liability companies.

**Table 2: Business Characteristics Information**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Years Established</td>
<td>Less than a year</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>1 to 3 years</td>
<td>36</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>4 to 6 years</td>
<td>42</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>7-9 years</td>
<td>27</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>10 years or more</td>
<td>21</td>
<td>14</td>
</tr>
<tr>
<td>Nature of Business</td>
<td>Service</td>
<td>86</td>
<td>57.3</td>
</tr>
<tr>
<td></td>
<td>Manufacturing</td>
<td>23</td>
<td>15.3</td>
</tr>
<tr>
<td></td>
<td>Agriculture</td>
<td>41</td>
<td>27.4</td>
</tr>
<tr>
<td>Annual Turnover</td>
<td>Less than 100,000</td>
<td>108</td>
<td>78.7</td>
</tr>
<tr>
<td></td>
<td>Between 100,000 – 200,000,</td>
<td>34</td>
<td>22.7</td>
</tr>
<tr>
<td></td>
<td>Between 200,000 – 300,000,</td>
<td>8</td>
<td>5.3</td>
</tr>
<tr>
<td></td>
<td>Between 300,000 – 400,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Estimated Staff Strength</td>
<td>Less than 10</td>
<td>103</td>
<td>68.7</td>
</tr>
<tr>
<td></td>
<td>11 to 50</td>
<td>42</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>51 to 250</td>
<td>5</td>
<td>3.3</td>
</tr>
<tr>
<td>Registration Status</td>
<td>Sole Proprietorship</td>
<td>70</td>
<td>46.7</td>
</tr>
<tr>
<td></td>
<td>Limited Liability</td>
<td>44</td>
<td>29.3</td>
</tr>
<tr>
<td></td>
<td>Partnership</td>
<td>36</td>
<td>24</td>
</tr>
</tbody>
</table>

**Source:** Field Data, 2019, N = 150

The correlation analysis examines the relationship between the variables with their inter-connections ranging from 0.594 to 0.763 which indicates the absence of multicollinearity among the variables. Hair et al. (1998) argued that, correlation coefficients more than 0.80 demonstrate the presence of some multicollinearity among variables (i.e. r > 0.80). The high mean scores also suggest a relatively high level of the various variables being tested from among the sample as presented in table 3 below.

**Table 3: Summary of Variables for Variable Items**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>t Stat</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Strategic Planning</td>
<td>4.70</td>
<td>0.639</td>
<td>1</td>
<td><strong>0.0000</strong></td>
</tr>
<tr>
<td>Business Performance</td>
<td>5.33</td>
<td>0.728</td>
<td>0.763</td>
<td>1</td>
</tr>
<tr>
<td>Challenges of Business Planning</td>
<td>4.83</td>
<td>0.641</td>
<td>0.611</td>
<td><strong>0.594</strong></td>
</tr>
</tbody>
</table>

**Source:** Field Data, 2019

Notes: N=150; SD = standard deviations; (**=p≤0.05)

**Relationship between Business Planning and Business Performance**

A regression analysis was conducted to test for the existence of any relationship between business planning and business performance. The analysis involved the use of a linear regression model to estimate the relationship which had business planning being the independent variable and business performance, the dependent variable with a general functional form of the model represented by this equation as BPerf = b0 + b1 (BPlan) + E, where BPerf represents business performance, BPlan as business planning, E as the error term and b0 to b1, coefficients.

**Table 4: Relationship between Business Planning and Business Performance**

<table>
<thead>
<tr>
<th>Estimated Variables</th>
<th>Coefficients</th>
<th>Standard Error</th>
<th>t Stat</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.6305</td>
<td>0.5322</td>
<td>5.183</td>
<td><strong>0.00000</strong></td>
</tr>
<tr>
<td>Business Planning</td>
<td>0.3541</td>
<td>0.0366</td>
<td>4.497</td>
<td><strong>0.00000</strong></td>
</tr>
<tr>
<td>F-Stat</td>
<td>188.31</td>
<td>0.00000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R Square</td>
<td>0.752</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.765</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Field Data, 2019

The results of the regression analysis also yielded an intercept of 0.6305, a coefficient of 0.3541 from the business planning variable; producing an overall linear relationship between business planning and business performance expressed in this equation as BPerf = 0.6305 + 0.3541BPlan. Consequently, there analysis established a positive linear association between the business planning and business performance. Inferring from this development, it is seen that increasing business planning practices will elicit improved business performance as was already established by other studies (Wang et al., 2010; Eriksen, 2008; Hussam & Raef, 2007; Dincer et al., 2006 and Honig & Karlsson, 2004). With an F-Test statistic score of 188.31 and a P<0.01, the overall regression estimate is statistically significant at 5% level. The R-squared score of 75.2% along with the adjusted R-squared score of 76.5% suggests that, approximately 75% of the change in business performance among the SMEs is attributable to their business planning processes.

**Challenges of Business Planning among SMEs**

It is natural for the policies and plans that are put in place by them to have certain challenges (Opoku, 2016). In examining the most prevalent challenges encountered by SMEs in
designing and implementing their strategic plans, a relative importance index (RII) analysis was conducted to find out which of these challenges were most widespread among the surveyed firms.

**Table 5: RII Ranking of Challenges of Business Planning among SMEs**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Relative Index</th>
<th>Rank of Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHA1. Access to credit</td>
<td>0.906</td>
<td>1</td>
</tr>
<tr>
<td>CHA2. Implementing strategies increases the firm’s operational costs</td>
<td>0.831</td>
<td>5</td>
</tr>
<tr>
<td>CHA3. Adhering to these strategies mean little flexibility to the business</td>
<td>0.704</td>
<td>8</td>
</tr>
<tr>
<td>CHA4. The firm has inadequate logistics towards implementing its strategies</td>
<td>0.859</td>
<td>4</td>
</tr>
<tr>
<td>CHA5. The business lacks the managerial skills/expertise to implement its strategies</td>
<td>0.744</td>
<td>7</td>
</tr>
<tr>
<td>CHA6. The external environment of this business makes strategy implementation difficult</td>
<td>0.891</td>
<td>2</td>
</tr>
<tr>
<td>CHA7. Resource allocation in this firm is not aligned with the business’ strategy</td>
<td>0.874</td>
<td>3</td>
</tr>
<tr>
<td>CHA8. Management is unable to effectively manage change</td>
<td>0.690</td>
<td>9</td>
</tr>
<tr>
<td>CHA9. Top management does not support/buy into the firm’s strategies</td>
<td>0.602</td>
<td>12</td>
</tr>
<tr>
<td>CHA10. Human capital in this firm is not effectively developed to support the business strategy</td>
<td>0.649</td>
<td>11</td>
</tr>
<tr>
<td>CHA11. There’s ineffective control of strategy implementation</td>
<td>0.655</td>
<td>10</td>
</tr>
<tr>
<td>CHA12. The strategic implementation lacks a good monitoring and evaluation regime</td>
<td>0.804</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Field Data, 2019

The RII analysis result shows a consistent pattern that does not depart from literature as access to credit (0.906) was highly ranked by the respondents as the most profound challenge facing the business planning process of the surveyed SMEs (Agbenyo, 2015) while the lack of top managements’ support for firms’ strategic planning (0.602) was ranked as the least of the challenges. Other highly ranked challenges of business strategic planning and implementation as identified by the respondents include the difficulties posed by the business’ external environments (0.891), non-alignment of firms’ resource allocation to strategy (0.874), inadequate logistics (0.859), high operational costs occasioned by strategy implementation (0.831), lack of good monitoring and evaluation systems (0.804), lack of managerial skills or expertise (0.744), reduced flexibility (0.704) and managements’ inability to manage change (0.690) respectively. The others include the ineffectiveness of control systems to manage strategy implementation (0.655) as well as a lack of an effectively developed human capital that supports strategic planning and implementation (0.649) as already established by other authors (Olu, 2009; Allotey, 2008; Aboagye et al., 1998 and Steel, 1996).

6. Conclusion

This study employed differential statistical techniques in establishing the relationship between business planning and business performance as well as the challenges of business planning. The principal findings of the study reveal that, more than 50% of the businesses surveyed are unable to achieve their strategic business goals. Whereas a strong and positive relationship was established between strategic business planning and business performance, the study identified one major challenge of business planning among SMEs to be their access to credit. These findings inform the managerial implications going forth.

7. Managerial Implications and Recommendations

Following from the findings of this study it is recommended first of all that, the firms’ strategic intentions must be made known widely among its workforce in order to get their buy-in. Similarly, the firms’ resource allocation must be aligned with the businesses’ strategic goals and the human capital capacities of personnel developed to support the implementation of those strategies. In order to manage change easily, top management must also commit itself to ensuring that, the strategic goals of the business entity are adhered to. This way, they would be able to create unexpected synergies that would yield enormous business benefits.

While social change has its own implications for the continued existence of any business entity, it is important that firms consider establishing monitoring, research and development units to support their business’ strategic operations. This is because firms with research and development units are more likely to be proactive in predicting, preparing and mitigating management lapses. Added to that, those firms which may have research and development units already in place should institute measures to adequately resource them in order to boost their performance and service delivery.

Governments, civil society, the National Board for Small Scale Industries (NBSSI), the Association of Ghanaian Industries and all other interested stakeholders in the SME space should endeavor to provide technical and consulting assistance to these businesses in their areas of need as highlighted by this study including the development and implementation of business plans, research and monitoring, human capital development as well as training support.

Connected to the previous, it is also proposed that, stakeholders in the SME sector introduce some tailor-made initiatives and policies that would appropriately address the unique needs of these businesses. Programs such as business literacy trainings, the establishment of an SME bank, reduction of interest rates for SMEs, the introduction of affirmative actions that would reduce the importation of certain categories of goods and services are all examples of some policies that could be implemented to facilitate the growth and performance of this sector.

8. Limitations and Opportunity for Further Research

To strengthen the understanding of the relationship between the business planning and business performance, future research undertakings may consider exploring other
important dimensions such as the influence of managers’ socio-demographic backgrounds and leadership styles. Other efforts may focus on industry specificity which would deliberate on SMEs within a common sector like manufacturing, service or agriculture only to see what results can be obtained. More so, other studies may also consider the corporate and business context as well as cultural differences and how they could impact on business planning and strategy towards performance.

9. Acknowledgements

We express our gratitude to all the SME managers selected across the three metropolises who took their time to participate in this study. We also extend our warm appreciation to all whose works have contributed to shaping our understanding and knowledge in the areas of entrepreneurship, business planning and strategy as well as business performance.

10. Funding and Competing Interests

The authors declare that, they have received no funding directly for this research and hence, declare no competing interests for this work.

References


Author Profile

Victor Osei Poku, (Principal Author), MSc, Industrial Finance and Investment, Ghana College of Nurses and Midwives/PNEP

Emmanuel Jeffrey Dzage, MBA, Management and Organizational Development, Department of Human Resource Management and Organizational Development, Kwame Nkrumah University of Science and Technology, Kumasi

Dr. Wilberforce Owusu Ansah, Head of Department, Department of Strategic Management and Marketing, Kwame Nkrumah University of Science and Technology, Kumasi

Volume 9 Issue 2, February 2020

www.ijsr.net

Licensed Under Creative Commons Attribution CC BY

Paper ID: SR20218143638 DOI: 10.21275/SR20218143638 1663