

The Effect of Strategic Planning on Small and Medium Enterprises Performance in Kelantan, Malaysia

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Abstract: Strategic planning is an important and vital ingredient for the success of SMEs in a competitive environment. This study focuses on the effect of strategic planning on performance, specifically of small and medium enterprises (SMEs) in Kelantan, Malaysia. The survey method was used to collect data from SMEs in the retail industry in Malaysia. The result indicates that strategic planning has significant value for performance. The findings of this paper offer important insights for employees of SMEs and researchers to further understand the influence of strategic planning on SMEs' performance. SMEs must also be encouraged to develop their strategic planning to enhance their performance.

Keywords: Strategic Planning (SP), Performance (PER), Small and Medium Enterprises (SMEs).

I. INTRODUCTION

Small and medium enterprises (SMEs) are regarded as the backbone of every economy and have the potential to propel financial development through innovation, creating new businesses and employment and surging ahead (Abbasi, Wang, and Alsakarneh, 2018). Raymond *et al.* (2010) said that SMEs encounter obstacles when entering into overseas markets, including restricted export capabilities, a lack of familiarity with international markets, inadequate access to funding, insufficient knowledge of rivals, human resource constraints, and lack of understanding of consumers' purchasing behavior.

According to Brühlhart *et al.* (2020), currently, SMEs appear to be more concerned with factors that can help to sustain them and be debt-free.

According to the most recent statistics from the Malaysia Statistical Business Register (Department of Statistics Malaysia), the total number of SMEs in Malaysia in 2020 was 1,151,339, constituting 97.2% of all business establishments in the country. Since 2015, the number of SMEs has expanded by an average of 4.9% per year. (Department of Statistics Malaysia, 2022). SMEs accounted for 78.4% (903,174) of the total, with microenterprises accounting for the biggest percentage (903,174). Over the five-year period from 2015 to 2020, there has been an increase of 209,504 microenterprises, representing an annual growth rate of 5.4% per year. SMEs accounted for 20.0% (229,876) of all SME establishments, with medium-sized enterprises accounting for 1.6% (18,289) of the total.

With rapid changes in business management globally, SMEs are having crucial strategic problems that are impacting their performance Alqershi *et al.* (2021). Business performance can be measured by technology adaptability, market share, revenue, and profit (Gupta and Govindarajan, 1984). SMEs contribute more than 48% of employment opportunities and 38.2% to Malaysia's Gross Domestic Product (GDP) (Ramdan *et al.*, 2022). To continue to be competitive, SMEs need robust strategic planning to ensure business performance is aligned to the goals, that strategic planning, according to Ramdan *et al.* (2022), is the foundation for improving business processes, and as a result,

lowers operating costs. It is a critical tool for anticipating and preparing for changes in customer needs. Strategic planning is also mentioned in relation to event planning firms. SMEs' performance has been linked to strategic planning, according to a study conducted by (Sandada *et al.*, 2014).

This study focuses on the effect of strategic planning on productivity (performance) of SMEs as very few studies have focused on strategic planning as a single component to sustain the market. Strategic planning can have a profound impact on business performance (George *et al.*, 2019). This is supported by Alqershi *et al.* (2021) that overall, there is a significant relationship between strategic planning and organizational performance. More importantly, strategic planning is a priority in SMEs because as a small and new start-up, it needs effective and efficient planning to minimize risks (Brüllhart *et al.*, 2018). Thus, the focus of this study is on effect of strategic planning on performance of SMEs in Malaysia.

II. LITERATURE REVIEW

A. Relationship between Strategic Planning and Performance

George *et al.* (2019) claimed that a plan is not enough, and that a strategy is needed. As a part of the strategic planning process, a thorough analysis of both the company's internal and external environment is necessary, as well as the development of a set of clearly defined goals and strategies based on this analysis. It could be difficult for an organization to define its goals and mission if it does not have a clearly defined strategic planning process in place. This does not imply that the organization will become more effective in defining its goals and mission because of strategic planning. Strategic planning necessitates the allocation of both human and financial resources.

Strengths, weaknesses, opportunities and threats (SWOT) can be found by looking at the company both from within and externally. This helps the company to know what its goals and vision are, and this method is one of the cornerstones of strategic planning (Kabeyi, 2019). Companies that use formal planning are more inclined to consider potential obstacles than those that use non-formal planning (Batra *et al.*, 2017). Businesses that engage in strategic planning are more likely to identify opportunities for growth and development.

The importance of strategic planning in today's business world cannot be overstated. Strategic planning has become increasingly important to enable a company to innovate and remain viable in today's market conditions and technological landscape (Arend *et al.*, 2015). According to Allison and Kaye (2011) in the long run, strategic planning for businesses will help the management make better decisions and invest more money, which will make the company more efficient.

A company's ability to perform well is limited by both internal and external constraints, such as the availability of resources

and strategic choices (Tracey, 1994). Based on the findings of Mahmutaj and Krasniqi (2020), it is clear that SMEs in Kosovo have innovative characteristics that help them grow. SMEs can benefit from this by encouraging their employees outside of their job duties to seek out additional knowledge and skills. This could help SMEs work harder and come up with more creative solutions. Further, because of the unstable environment, small businesses should be careful to find out what the market wants and needs before they start their business. SMEs must take into account factors that have a direct impact on their business goals, and on the growth of the economy as a whole (Alqershi *et al.*, 2021).

In addition, Hübner *et al.* (2016) posited that as a result of strategic planning, operational performance can be improved in terms of demand fulfilment, product customization, product quality, and cost reduction. The process of strategic planning is essential for businesses that want to succeed in the future. Strategic planning has a link to a company's performance (Arend *et al.*, 2015). For "average" firms, strategic planning has a negative impact on innovation, but a positive impact on performance. Without strategic planning, employers may find themselves in peril if they do not seize the opportunity to incorporate strategic planning into their organization.

Biondi and Russo (2022) said that a company's performance can be improved through the use of strategic planning practices, which include formulating mission and vision statement, undertaking corporate initiatives, and setting performance goals. And according to Aziz (2019), the management at Banks in Bahrain enjoys good relations with its employees, and the banks' goals and incentives are in line with their overall strategy. Restructuring can be sparked by a variety of factors, including competition, new corporate strategies, budget cuts, public outcry, and shifts in government policy.

Kylaheiko *et al.* (2016) also found that strategic planning has a positive impact on the bottom line of a company. Furthermore, Durmaz and Açıkgöz (2020) discovered that strategic planning has a big effect on the Malaysian setting and came to the conclusion that there is a huge link between strategic planning and how well the SMEs did.

Donkor *et al.* (2018) found that applying strategic planning methods consistently boosted the performance of Ghanaian SMEs. Even though it had a small effect, it was found that market dynamism had a very positive effect on firm performance.

A study by (AlQershi, 2021) shows that a company's human capital helps it perform better strategically, innovatively, and strategically. Subsequent studies have found no conclusive link between the planning of strategic moves and the performance of a company (Jung and Lee, 2013). Based on the framework, the following hypothesis was tested:

H1: There is a significant relationship between strategic planning and performance.

III. METHOD

The study's target population is Malaysian SMEs in Kelantan. A total of 60 questionnaires were used for analysis. The unit of analysis is the SME, and the owner is the representative of each SME. The measurements were adopted from the literature, i.e., strategic planning from Alqershi (2021). A 5-point Likert scale (1 = strongly disagree to 5 = strongly agree) was used to measure strategic planning. Performance was adopted from Gupta and Govindarajan (1984), and also measured on a 5-point Likert scale (1 = much lower to 5 = much higher). The study gathered data using a quantitative instrument, specifically a self-administered questionnaire distributed both by hand and online. Respondents were selected by stratified random sampling, meaning that each member of the population has an equal and independent chance of being selected (Alqershi *et al.*, 2021).

The data analysis technique, PLS-SEM, was performed with the Smart-PLS software, (version 3.0) (Sarstedt *et al.*, 2017), in two stages: assessment of first, the measurement model, and second, the structural model. The measurement model determines the association between the latent variable and respective items to measure reliability and validity. The structural model determines the relationship between the independent variables (IVs) and the dependent variable (DV) to measure the path coefficients, effect sizes, significance of the relationship, and the amount of variance in the DV (R²) explained by the IVs (Alqershi *et al.*, 2021).

IV. RESULTS

To test the significance of the path coefficient, a bootstrapping procedure was carried out with the protocol (cases = 60, resample = 5000). The direct relationships in the research model were examined through the PLS structural model, and the findings are presented in Table I, which shows that H1, which predicted a significant relationship between strategic planning and performance, is supported.

TABLE I: RELATIONSHIPS

Constructs	Std. Beta	T-Values	P-Values	Decision
SP-> Per	0.192	6.019	0.002	Supported

V. DISCUSSION AND CONCLUSION

There is only one goal in this study: to find a connection between strategic planning and operational performance, and to determine if the size of the enterprises has a negative relationship. Strategic planning and performance are found to be positively correlated, and this serves as confirmation of the importance of both direct and indirect connections that have previously been hypothesized.

If a company is going to succeed, it needs top-level managers to connect the dots between its strategic planning and its actual performance. SMEs were examined quantitatively and qualitatively in an attempt to fill a void in the literature. The actual results of this study show that good strategic planning has a big effect on how well things work. As a better strategy is put into place, an organization's performance will get better.

SME managers in Penang should regularly provide their employees with excellent training as part of their long-term strategic planning, according to our team's findings after conducting the research. Furthermore, strategic planning can improve organizational vision by achieving its goals and strategies as documented by (O'Regan *et al.*, 2002). However, managers should keep in mind that the value they receive from training outweighs the cost. Strategic planning, according to Kláčmer Čalopa (2017), is the process of planning to come up with strategies that could improve performance. To achieve this objective, relevant information that can help people better understand environmental factors and reduce uncertainty must be made available. The ability to weigh the advantages and disadvantages of any potential change is an important part of strategic awareness.

Additionally, the study finds that the success of strategic goals is influenced by a company's efficiency. According to our findings, strategic planning has a positive impact on an organization's performance. Strategic planning has been found to be essential for improving an organization's performance and productivity, according to the findings of recent research. Furthermore, according to Donkor *et al.* (2018), strategic planning is done in order to gain an advantage over competitors. This allows businesses to gain sustainable planning more quickly and effectively. In terms of profitability and employee growth, SMEs with strategic planning are more likely to be successful. The success of SMEs is heavily reliant on strategic planning, in addition, planning is of equal significance for both small and medium-sized businesses as it is for large corporations.

The focus of this study is on strategic planning and the performance of SMEs. By analyzing the effectiveness of a company's strategic planning process, researchers have found that a company's success can be measured. An organization's overall performance benefits from strategic planning, regardless of the size, according to this research. Unless we have been misinformed, we believe that planning with proper planning will result in better performance. In order to increase productivity in the workplace, careful planning is required. It is true that strategic planning is a multifaceted endeavor, but that does not imply that the time invested is a waste, as there is value in strategic planning. Companies that use strategic planning are more likely to survive and prosper than those that do not. To succeed in today's competitive marketplace, an organization must have a well-thought-out strategic plan. While vision and mission are not the only things that go into a company's success, they do play a role. If the company wants to be successful, it needs to direct the majority of its attention toward the most significant challenges it is currently facing. An organization's

long-term direction and whether or not it should change are critical questions that must be addressed. The results of the study can assist policymakers, practitioners, and researchers to further understand the influence of strategic planning on SMEs' performance.

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