

Performance of Small and Medium Enterprises: Evidence from Nigerian Business Environment

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Abstract

There is growing body of evidence supporting the relationship between planning practices and perceived benefits in organizations. Most of the studies carried out have been limited only to large enterprises in developed economies. There is, however some fewer empirical work that has examined the relationship between planning and organizational performance in under-developed countries. To fill this gap, this study examined the relationship between formal planning and business performance having taken a sample of manufacturing SMEs in Nigeria. Data and relevant information elicited from selected respondents in SMEs were analyzed. Results of the analysis revealed that there exists a significant relationship between planning and performance of SMEs. The findings of the study provided some insight to fill the research gap and contribute to the literature which can be useful to owners and managers of SMEs.

Introduction

Most of the literatures relating to both large and small firms have continued to emphasize correlation between management activities and performance. Studies within this emphasis in the SMEs seems to be driven by a need to emulate large firm activities and establish a set of desirable management activities that all SMEs should implement such assumed management practices. However, when these types of management activities are used in the management of SMEs there is an expectation of a more efficient and effective SME sector.

In the late 1960s, interest in the relationship between planning and organizational performance has grown. A large body of this research has concentrated on large firms; numerous articles in academic publications as well as practitioner-oriented journals have recognized the importance of planning for SMEs. The literature strongly supports the argument that, in small business, planning is a key issue. Aram and Cowen (1990) contended that planning improves profitability and planning is a key to success. Planning not only increases the success rate as suggested by Jones (1982), but it also affects the level of performance. This idea was also supported by Bracker and Pearson (1986) who identified different levels of planning associated with different levels of performance.

It is generally believed that since the impact of planning on enterprise performance is implicit only in academic discussions, much of our understanding of this phenomenon is based on speculation and opinion. Thus, it is important to examine empirically the type and use in SMEs and how they impact their performance.

Although some studies have examined the relationship between planning and performance in large organizations and also in developed economies, to the best of my knowledge, there has been no empirical investigation conducted related to the planning and its impact on the performance of SMEs in a developing economy, like Nigeria. Nigerian firms are mostly adaptive in nature, short term oriented, and concerned with the manipulation of scarce resources and limited resources. Planning in small firms is generally typified by intense personalization. It is highly influenced by the preferences, experiences, attitudes, prejudices and general personality sets of the firm (Gibson and Cassar 2002).

This study is therefore an attempt to examine the relationship between formal planning and business performance of SMEs firms operating in the Nigerian business environment. The study is broken down into five parts with the first part discussing the background of the study addressing the research problem. This is followed with a relevant review of literature highlighting the concepts, such as planning, performance, and relationship between these two concepts. Next is the methodology adopted for the study followed by the analysis of data. The presentation of the results of the analyzed data and the discussion of the major findings represented the fourth part. Finally, the conclusions drawn from the study were provided.

Review of Relevant Literature

The Concept of Planning.

Planning can be conceived as the process by which managers set objectives, assess the future, and develop courses of action designed to accomplish these objectives. As the definition states, the planning process actually includes the determination of appropriate goals and objectives and the optimum timetable for achieving them. Effective planning often means the difference between success, mediocrity, and failure. It is a continuous function that directs the organization through a change-oriented environment in the pursuit of established objectives. It also specifies the action needed to reach these objectives.

Plans are natural outgrowths of the planning process. They are detailed expressions of actions necessary to accomplish stated organizational objectives. Once plans are formulated and implemented, they are periodically evaluated to determine their success in moving the organization in the direction of its stated goals.

The generic nature of planning refers to its general, universal, or common characteristics. Fundamentally, planning deals with the futurity of present decisions. This means that planning examines future alternative courses of action which are open to a company. In choosing from among these courses of action, a frame of reference is established for current decisions. Also plan examines the evolving chains of cause and effect likely to result from current decisions. From these perspectives, planning in business can be conceived as reasoning about how the business will get where it wants to go.

Indeed, a basic task of planning is to visualize the business as the managers wish it to be in the future. Planning, inherently, involves assessing the future and making provision for it, and its essence is to see opportunities and threats in the future, and respectively exploit or combat them, as the case may be.

Apart from its generic nature, planning can be discussed as a process. Planning as a process begins with objectives setting, definition of strategies, policies, and other related detailed plan of actions to achieve the set objectives. Planning as a process also includes a review of performance and feed-back to introduce a new planning cycle. Specifically it is the continuous process of making present entrepreneurial decisions systematically, and with the best knowledge of their futurity, organizing systematically, the efforts needed to carry out these decisions, and measuring the results of these decisions against the expectations through organized, systematic feed-back. Thus, as a process, planning may be defined as deciding in advance, what is to be done, when it is to be done, how it is to be done, and who is to do it.

From the point of view of the changing business environment, Planning can also be a continuous process, because changes in business environment are continuous. The idea here is not that plans must be changed in accordance with changing factors of the business environment. Rather, in another point of view, planning must be continuous because commitments once made become liquid over a stream of time.

Another important aspect of the concept of planning is its philosophy. Planning is a philosophy, not so much in the literal sense of that word but as an attitude. Planning is a way of life and it necessitates a dedication to acting on the basis of contemplation of the future, a determination to plan constantly and systematically as an integral part of management. The first step toward adequate planning is the establishment of a planning climate. This means that throughout a company, there should be an acknowledgement of planning as a way of life and this must be identified within a controllable function essential to the progress of the organization.

Planning is reflected also in a structure of plans. This can be expressed in several different ways. First, it includes a reasonably complete and uniform set of plans for the entire business, reaching out over an extended period of time. It is an integrated framework within which each of the functional plans is integrated into an overall plan for the entire business. It should be recognized that life is so complicated that it is impossible to tie together all plans into a complete coordinated set of relationships. The further out in time, the less detail is appropriate and the looser are the relationships among parts of the planning program. Viewed in another way, planning is composed of structural blocks of plans. The three principal ones are strategic plans, medium-range programs, and short-range detailed plans and budgets. All these are interrelated and each has characteristics which distinguish it from the others.

Planning is about the future. It is about seeing the future before it arrives. Further it is a managerial process which provides the purpose and rationale of thoughtful activities of the organization. However, business planning can take a variety of forms from the informal to formalized and carefully prepared plans. In this, we are interested in the presence or absence of formal written plans rather than plans held in the head of an owner manager. The plan would also be a formal statement of future intentions rather than something roughed out on the back of an envelope.

Planning from the Perspective of Small Firms

The use and application of the planning process in small firms is still a number of ongoing debates (O'Neill, Saunders and Hofman 1987). The fact is that small firms do plan. The existence of diverse planning process in small businesses should be expected but with little or no resemblance to the planning process found in large organizations.

Planning in large organizations has been researched extensively, resulting in many prescriptions, models, and conceptions (Jennings and Beaver 1997). Planning in small firms is mostly adaptive in nature, short term oriented, and concerned with the manipulation of scarce resources and limited resources (Gibson and Cassar 2002). Planning in small firms is generally typified by intense personalization. It is highly influenced by the preferences, experiences, attitudes, prejudices and general personality sets of the firm.

Performance

Performance is obviously a concept of interest in research concerned with the planning and performance relationship. However, as suggested by Venkatraman and Ramanujam (1986) performance in research settings is perhaps one of the important issues confronting the academic researcher. One of the reasons for this is that it is not always clear what performance means or what appropriate operational definitions are. Lumpkin and Dess (1995) used accounting measures such as sales growth, market share, and profitability alongside indicators of overall performance, as well as other indicators of stakeholder satisfaction.

Murphy, Trailer and Hill (1990) in their study of 51 articles found 71 different operational measures of performance, grouped in eight major dimensions of which efficiency, growth and profit are most frequently used. Murphy et al also identified some relativist performance evaluation measures that ask what goals a firm has set, and then enquires in to the extent to which these goals have been achieved. In literature, various measures are used in determining the performance level of firms. Studies have used both financial and non financial measures of performance. Others used subjective and/or objective measures to measure performance. When used, these different measures are bound to give conflicting results because they measure different performance aspects of the firm.

In recognition of this problem, Tosi and Gomez-Mejia (1994) suggested that performance should be measured with both financial and non financial measures, employing subjective and objective data. In this study, business performance is identified in terms of including financial and non financial measures of annual sales, annual profits, number of employees, market share and reinvestment to the business.

The relationship between planning and performance

While it is evident that sophisticated planning can enhance the general and competitive performance of the firm (Brokaw 1992; Branch 1991), planning and its usefulness in small firms is still a subject of intense debate and conflicting claims (Mintzberg 1994). Jones (1982) presented results establishing a relationship between planning and the success rate and performance of small firms. Many studies have lent support to this perspective. Jones also found that non failed firms did more planning than failed firms; Bracker and Pearson (1986) in examining the relationship between financial planning and performance found between these two variables. They found that planning was associated with growth in sales and no significant relationship was found with respect to the return on investment.

Earlier studies that examined the association between planning and performance grouped firms according to the thoroughness of their planning process. The intensity of planning was referred to as planning sophistication by Cartwright(1987). Planning sophistication denotes the completeness of the planning process. Wijewardena (2004) conducted a study on planning sophistication and performance of SMEs and suggested that greater planning sophistication has correlated significantly with high performance in sales. Further, study carried out by Welch(1984) examined the relationship between planning and control processes and the different stages of growth in a sample of small manufacturing firms and revealed that formal planning system is an important element in the management of high growth firms If operating at stages of mature growth. Similarly, Robinson (1982) suggested that small firm growth is constrained by failure to prepare and implement to sophisticated planning.

Some prior studies on the relationship between planning and sophistication and performance have presented mixed results. Planning sophistication does not lead to performance improvement (Armstrong 1991). For the purpose of this study, planning is characterized by the availability and non availability of written business plan.

Methodology

A total number of 150 SMEs were selected randomly from following cities in Nigeria.

- 60 from Lagos,(in Lagos State),
- 25 from Warri (in Delta State),
- 40 from Onitsha (in Anambra State),
- 25 from and Kaduna (in Kaduna State).

These SMEs were manufacturing SMEs and they play crucial role in the economic development of the nation. They have less than 300 employees respectively according to the definition of SMEs in Nigeria..

Research Instrument

A field survey was conducted to collect the data. Field studies are realistic because they study the phenomenon in their natural setting. In this study primary data pertaining to planning and business performance were elicited. The questionnaire method was chosen as the principal method of data collection because it afforded the advantages of speed, cost and versatility.

The questionnaire developed comprises of several sections. The first section included seven questions related to owner-manager characteristics of age, sex, marital status, educational qualifications, experience, most important reason to enter business and whether owned a business by a family member. The second section contained questions related to the firm/business characteristics of legal form, involved industry, age, number of employees, source of resources, market for production, whether family business, and number of managers and supervisors. The data were utilized to identify a more meaningful profile of the sample. Further, to measure the planning within the questionnaire respondents were asked to state whether the firm/business prepared a written business plan or strategic plan.

Business performance was measured in terms of annual sales, annual profits, number of employees, market share and investment to the business and in the questionnaire respondents were required to rate the trend of the above items related to the last three years on a five-point Likert-scale ranging from "highly decreased" to "highly increased". All the questions in the questionnaire were close-ended, multiple type and required ticking or circling the appropriate answer, thus minimizing the completion time. The reliability of the measure for performance was evaluated and found to be acceptable with a *Cronbach's Alpha* of 0.84.

Data Analysis

A non-parametric statistical technique was used as the analysis tool. Non-parametric technique was considered because the data used are measured on nominal (categorical) and ordinal (ranked) scales. Within the non-parametric technique, the chi-square independence test was applied to measure the relationship between planning and business performance. The prime objective of chi-square independence test is to determine whether two variables are related or not.

Planning was considered as independent variable and business performance as dependent variable involving the following:

- annual sales,
- annual profits,
- number of employees,
- market share and
- reinvestment to the business.

In addition, Pearson chi-square value was calculated to determine the level of significance. It was agreed that if the calculated value (p) is less than 0.05, the relationship is significant between two variables. Statistical calculations were done by using SPSS (version 16, 2007).

Results and Discussion

A total of 140 SMEs responded to the survey representing 87.4% of the total number of SMEs used in this study. 10% of the received questionnaire had to be discarded due to incomplete responses. The remaining 130 were thereafter considered useful for analysis. Below are the results of the data analysis.

Analysis of Owner Manager Characteristics and Firm Characteristics

Analysis of data with respect to owner-manager characteristics revealed that most of the owner -managers were more than 35 years old (58%). Specially, owner managers are represented by majority of 86.5 percent male managers and only 13.5 percent female managers. Among them 92 percent were married. Based on the educational qualifications, one of the important features was that 68 percent of owner managers possessed less than a university degree. Further, 69 percent had no prior experience before entering into the present business, while 31 percent had prior experience. Most important reason to enter into the business was either family business (36%) or peer group influence (43%). Others are forced in due to economic downturn of the nation.

On the firm characteristics of the sample, the majority of firms (76 percent) operated as sole proprietorship while others were either joint stock or partnership types. Nearly 71 percent of firms in the sample were firms employing fewer than 100 employees. Further most of the firms in the sample were old firms. 66 percent of SMEs were more than 30 years old. Major source of financing the organization was personal savings (52 percent) and mixed with personal savings, family loan and bank loan was 48 percent.

The production of firms was for both local and international market sharing at a ratio of 65 -35% ratio. Presently, 36 percent firms operated as family businesses while 64 percent firms were non family businesses.

Table 1. Industry classification in the Sample

Industry	Number of Firms	Percentage
Metal Fabrication	10	11.9
Food and Beverages	7	8.3
Furniture Making and Lumbering	8	9.5
Precision Machinery	9	10.7
Automobile Parts	10	11.9
Printing and Allied Products	11	13.0
Textile and Wearing Apparel	9	10.7
Welding	8	9.5
Electronic and Electrical Equipment	12	14.2
Total	84	100

Source: Survey data

Analysis of the Relationship between Planning and Performance

Two categories of planning sophistication were employed for the analysis of the relationship between planning and performance. These are:

- availability of written plan and
- non-availability of written plan.

Within these two major variables five performance measures namely annual sales, annual profits, number of employees, market share and reinvestment to business were considered. With regard to the change in variables of business performance which were measured using ordinal scale of measure, a non-parametric chi-square test for independence was used for the analysis. To ascertain whether there was a statistically significant relationship between planning and change in business performance, a chi-square test was employed separately, for two independent variables-namely "written plan" and "no written plan" with the five dependent variables which measure five different facets of performance.

The results of the test related with two categories of written business plan and change in annual profits are presented in the following Table 2.

1. Between Availability of Business Plan and Annual Profits

Table 2: Between Business Plan and Annual Profits

Nature of Plan	Annual Profits				
	Highly Decreased	Decreased	Neither Decreased nor Increased	Increased	Highly Increased
Written Plan	1 1.09%	25 20.14%	30 30.95%	35 39.95%	5 5.35%
No Written Plan	6 9.55%	8 15.2%	15 35.8%	20 40.2%	0 0%

$$X^2(4, N = 74) = 10.652, p = .031$$

From table 2 above the results indicate a significant relationship between planning and change in annual profits ($X^2(4, N = 74) = 10.652, p = .031$) at the 5-percent level. More specifically, 24.5 percent of SMEs in "no written plan" category showed a highly

decrease (9.55%) or decrease (15.2%) in annual profits, while 38.8 percent showed a similar increase in profits. With regard to the category of "written plan", the respective percentages were 22.2 percent (1.09 and 20.14) and 46.3 percent (39.95 and 5.35). In essence, only 38.8 percent of the SMEs with no written plan were able to increase profits over last three years, whereas 46.3 percent of SMEs were achieved similar increases in profits with prepared written plans. Therefore, this result suggests that a high level of planning leads to greater increase in profits of SMEs

2. Between Availability of Business Plan and Annual Sales

Table 3 presents the results of chi-square test related to two categories of written business plan and change in annual sales.

Table 3: Between Business Plan and Annual Sales

Nature of Plan	Annual Sales				
	Highly Decreased	Decreased	Neither Decreased nor Increased	Increased	Highly Increased
Written Plan	0 0%	18 19.01%	27 26.55%	42 42.45%	8 8.75%
No Written Plan	2 3.95%	9 17.99%	18 37.26%	17 37.52%	3 6.75%

$$X^2(4, N = 74) = 5.536, p = .237$$

The results depicted in Table 3 indicates a non-significant relationship between planning and change in annual sales ($X^2(4, N = 74) = 5.536, p = .237$) at the 5-percent level. Further, it viewed that 22.5 percent (3.95 and 17.99) of SMEs in "no written plan" category reports drastic decrease or decrease in annual sales, while 40.8 percent (33.52 and 6.75) reports a similar increase in annual sales. With regard to the category of "written plan", these values are 19.01 percent and 52.6 percent (42.45 and 8.75), respectively. It is evidenced that only 40.8 percent of SMEs with no written plan were able to increase or highly increase in annual sales over last three years, whereas 52.6 percent of SMEs preparing written plan have achieved increases in annual sales. However, as the difference is not statistically significant, it cannot be argued that a high level of planning affects increase in annual sales of SMEs.

3. Between Availability of Business Plan and Number of Employees

From table.4 the results of chi-square test related to two categories of written business plan and change in number of employees were illustrated.

Table 4: Between Business Plan and Number of Employees

Nature of Plan	Number of Employees				
	Highly Decreased	Decreased	Neither Decreased nor Increased	Increased	Highly Increased
Written Plan	2 2.4%	13 12.58%	35 37.21%	39 40.75%	6 6.65%
No Written Plan	5 11.28%	7 13.98%	20 41.09%	17 33.67%	0 0%

$$X^2(4, N = 74) = 7.935, p = .094$$

Table 4 shows a moderately significant relationship ($p < 0.1$) between planning and change in number of employees ($X^2(4, N = 74) = 7.935, p = .094$). Furthermore, it shows that 24.5 percent (11.28 and 13.98) of SMEs in "no written plan" category reported a highly decrease or decrease in number of employees, while 34.7 percent reported a similar increase in number of employees to the business. With regard to the category of "written plan", the respective percentages were 15.8 percent (2.4 and 12.58) and 47.4 percent (40.75 and 6.65). It is evidenced that only 34.7 percent of SMEs with no written plan were able to increase or highly increase in employees over last three years, compare to the other counterpart of 47.4 percent of SMEs. Therefore, the result suggests that a significant level of planning leads to increase in number of employees to the business of SMEs.

4. Between Availability of Business Plan and Market Share

The following Table 5 presents the results of the test related to two categories of written business plan and market share.

Table 5: Between Business Plan and Market Share

Nature of Plan	Market Share				
	Highly Decreased	Decreased	Neither Decreased nor Increased	Increased	Highly Increased
Written Plan	0 0%	6 7.82%	46 45.21%	36 39.01%	6 6.69%
No Written Plan	3 6.51%	6 12.58%	31 64.09%	9 18.75%	0 0%

$$X^2(4, N = 74) = 15.496, p = .004$$

The Table 5 depicts a significant relationship between planning and change in market share ($X^2(4, N = 143) = 15.496, p = .004$) at the 5-percent level. Particularly, 18.3 percent (6.5 and 12.58) of SMEs in "no written plan" category reported a highly decrease or decrease in market share while 18.4 percent reported a similar increase in market share. With respect to firms in category "written plan", the percentages were 64 percent and 44.7 percent (39.01 and 18.75), respectively. Therefore, it is evidenced that 44.7 percent of SMEs which prepare written plan were able to increase the market share over last three years. Interestingly, this figure reported only

18.4 percent of the SMEs with respect to firms in category "no written plan". Consequently, this suggests that high level of planning leads to greater increase in market share of SMEs.

5. Between Availability of Business Plan and Investment of the Business

Finally, table 6 illustrates the results of chi-square test related to two categories of written business plan and change in the investment to the business. Table 6 shows a moderately significant relationship ($p < 0.1$) between planning and change in investment to the business ($X^2(4, N = 143) = 8.327, p = .080$). Furthermore, it views that 16.4 percent (8.71 and 8.52) of SMEs in "no written plan" category reported a highly decrease or decrease in investment to the business, while 49 percent (37.95 and 10.75) reported a similar increase in investment to the business. With regard to the category of "written plan", the respective percentages were 6.4 percent and 55.3 percent (40.15 and 13.21). In short, only 49 percent of the SMEs with no written plan were able to increase or highly increase in investment to the business over last three years, whereas 55.3 percent of SMEs preparing written plan have achieved increases in investment to the business. Thus, this result suggests that significant level of planning leads to greater increase in reinvestment to the business of SMEs.

Table 6: Between Business Plan and Investment to the Business

Nature of Plan	Investment to The Business				
	Highly Decreased	Decreased	Neither Decreased nor Increased	Increased	Highly Increased
Written Plan	0 0%	6 6.67%	36 35.28%	39 40.15%	13 13.21%
No Written Plan	4 8.71%	4 8.52%	17 33.72%	19 37.95%	5 10.75%

$$X^2(4, N = 143) = 8.327, p = .080$$

From table 7 the result of the chi-square test indicate a significant relationship between planning and change in firm size ($X^2(5, N = 143) = 13.70, p = 0.018$) at 5 percent level. Of those who have 100 to 250 employees, 81.8 percent of firms prepare written plan and the rest of 18.2 percent of firms do not have a written plan. This result suggests that when the firm size increased or decreased in terms of number of employees, there is a tendency of increasing or decreasing the level of planning.

Table 7

Nature of Plan	Less than 9	Firm Size (Number Of Employees)					Total
		10-19	20-49	50-99	100-250	250-300	
Written Plan	6 46.2%	5 45.4%	7 70%	9 75%	10 62.5%	7 58.3%	44
No Written Plan	7 53.8%	6 54.5%	3 30%	3 25%	6 37.5%	5 41.6%	30
Total	13	11	10	12	16	12	74

$$X^2(5, N = 143) = 13.70, p = 0.018$$

The generally held view is that, high level of planning contributes to the accomplishment of high level performance, This, situation revealed by this study's sample firms operating in the Nigerian business environment is consistent with the findings of the studies conducted by Bracker and Pearson (1986). But the finding on relationship between planning and sales is rather surprising. The high level of planning does not impact to increase the sales. But there is no prior research evidence to prove it. The reason for this situation may be most of SMEs in Nigeria manufacturing industry produce products more for local and less for international market and they have already their markets whether available or non-available of a written business plan for the organization. On the other hand, due to the lack of a written plan, SMEs may have high production cost to affect decrease in profits, though they have the market for their products. Another important finding is that when the firm size is increased there is a tendency to increase the level of planning. Market share is the highest level of increasing performance, when the level of planning increases. This is a remarkable and new finding to the literature.

Conclusions

The important conclusion drawn from the study is that there is a positive and significant relationship between planning and performance in manufacturing SMEs in Nigeria. In addition, based on each finding of performance

variables, the conclusion drawn is that there is a strong and significant positive relationship between planning and profits, planning and market share and moderately significant positive relationship between planning and number of employees and reinvestment to the business. But there is a non-significant positive relationship between planning and sales. Therefore, the findings suggest that high level of planning leads to greater increase in business performance in terms of sales, profits, number of employees, market share and reinvestment to the firm. Further, market share has the highest performance score, when the level of planning increases in SME.

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