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## **The Relationship between Strategic Planning and Malaysian SMEs Business Performance: The Effect of Employee Participation, Implementation Incentive and Strategy Evaluation and Control**

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### ***Abstract:***

*The aim of this study is to examine the effect of strategic planning on Malaysian SMEs business performance as well as the effect of employee participation, implementation incentive, strategy evaluation and control on strategic planning process. This study considered the research framework proposed by Dubihlela & Sandada (2014), thus the research findings of Dubihlela & Sandada (2014) are used to compare with this study. The data was gathered via electronic mail and manually from SMEs around Kuala Lumpur. Out of 1000 questionnaires were distributed, a total of 204 questionnaires were collected back from the respondents, however only 183 questionnaires were usable. The data were analyzed using statistical package for social science (SPSS) software version 22.0. Pearson Correlation and multiple regressions were used in testing the hypotheses. The finding concluded that the strategic planning process delivers a significant and positive effect on Malaysian SMEs' business performance. It is also found that employee participation and strategic evaluation and control have a significant and positive effect on strategic planning process. However, implementation incentive does not have significant and positive effect on strategic planning process. This study suggests SMEs in Malaysia to adopt a formal strategic planning process as it leads SMEs to achieve high business performance. SMEs in Malaysia also needs to involve employees in the strategic planning process and apply strategy evaluation and control to enhance the strategic planning effectiveness. However, SMEs have to find other ways to motivate employees to achieve the company's goals as incentives does not affect the strategic planning process.*

***Keywords:*** *SMEs, strategy planning, employee participation, implementation incentive, strategy evaluation and control, performance*

### **1. Introduction**

Malaysia is heading to become a developed nation by the year 2020. Vision 2020 is to transform Malaysia from middle income country to a high income nation and truly developed in all aspects, especially the economy (Yen Ping, 2009). In order to achieve this vision, the Malaysia government has recognized the importance of Small and Medium Enterprises (SMEs) as an engine of economic development. According to SME Master plan 2012-2020, Malaysian SMEs play a significant role in order to stabilize growth and stimulate the economy during the economic downswing. In fact, SMEs also contributed to a large number of employments and increased the country chance to compete globally.

Meanwhile, as reported by the SME annual report 2014/2015, SMEs contributed 35.9% of Gross Domestic Product (GDP) in 2014 which is an increase of 2.4% from 2013 (SMEs Corp., 2015). Thus, it seems SMEs contribution has improved after experienced slow growth for the past 9 years. Besides, the Figure 1 illustrates that SMEs' contribution to GDP received an average increment of 0.72% for the last 10 years. Yet, to attain Vision 2020, SMEs should get an average increment of 0.85 % for the coming 6 years, as SMEs need to reach 41% of GDP contribution by 2020 (SME Corp., 2013). As a result, SMEs have to better their productivity to one time higher than current in order to substantiate the vision.

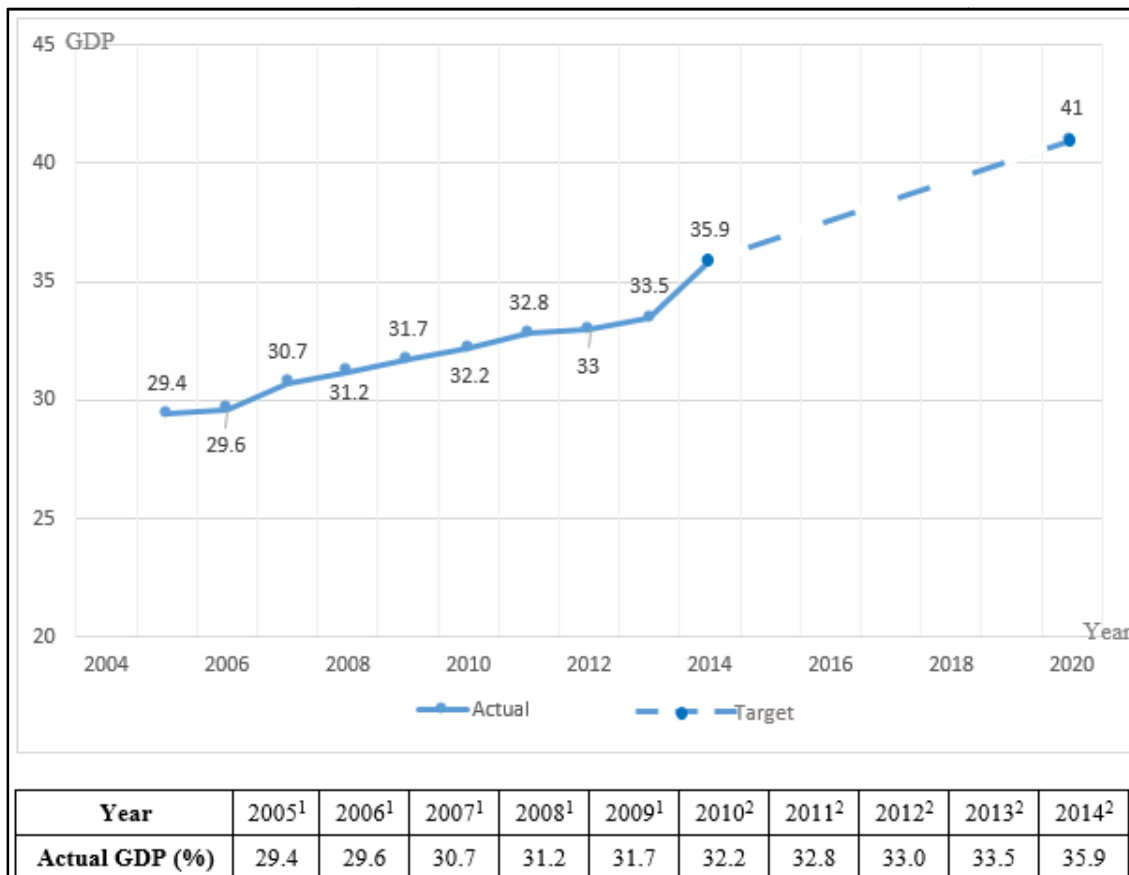


Figure 1: Contribution of SMEs to Overall GDP  
 Source: SME Annual Report (2013/2014)<sup>1</sup> & (2014/2015)<sup>2</sup>

Moreover, the SME Corp. (2013) has reported that the failure rate of Malaysian SMEs is 42% and the high failure rates are at the beginning stage (Akhtar *et al.*, 2015). Based on Akhtar *et al.* (2015), this failure occurs because SMEs does not possess the ability dealing with the global business environment which changing rapidly, while they also encountered difficulty to introduce into the market due to lack of competitiveness against large organizations (Kee-Luen *et al.*, 2013). Since Raymond *et al.* (2013) argued that SMEs which involved in strategic planning will have the ability to be competitive in a challenging environment and more potential to achieve financial success, thus it is important to investigate whether SMEs in Malaysia are adopting strategic planning and how it affects the business performance. Furthermore, Dubihlela & Sandada (2014) have recommended involving employees’ participation, implementation incentive and strategy evaluation and control to the strategic planning process as it ensures the effectiveness of the process. Hence, these factors also required to be investigated to determine whether the result benefits Malaysian SMEs.

1.1. Statement of Problem

Many researchers argued that strategic planning process provides positive effects for the business performance (Anyieni, 2014; Mosoti & Kamau, 2014; Hakimpoor, 2014). They concurred that the organization that adopted strategic planning process are able to deal with the unstable business environments and more likely to perform better. However, on that point that is a contradict finding where Gica & Negruab (2011) found there is no significant relationship between the strategic planning and business performance. Likewise, there is also a contradict finding on employee participation and strategic planning process, where some researchers found there is a positive effect between employee participation and the strategic planning process (Wairimu & Theuri, 2014; Sandada *et al.*, 2014; Suklev & Debarliev, 2012), which they believed employee participation in strategic planning increase employees commitment to achieve organizational goals. Nevertheless, the finding by Elbanna (2008) indicates that there is no substantial relationship between the employee participant and the effectiveness of strategic planning.

Moreover, several researchers found implementation incentive significantly influence strategy implementation as it will prompt employees to implement strategy well (Dubihlela & Sandada, 2014; Ndegwah, 2014). Besides, researchers also found significant effects between strategy evaluation and control and strategic planning process, as the strategy evaluation and control is essential to ensure the success of the strategic planning process due to it bring the organization back to track so that the ultimate objective can be achieved (Dubihlela & Sandada, 2014; Birinci & Erin, 2013). Nonetheless, there is difficult to ascertain whether the strategic planning process brings high performance to Malaysian SMEs. Similarly, it is also difficult to find out whether the strategic planning factors, namely employee participation, implementation incentive, strategy evaluation and control affect the effectiveness of strategic planning process.

This is because, from the literature review that has been conducted, there is a lack of studies focused on the effect of strategic planning on the performance of SMEs as well as the effect of strategic planning factors on strategic planning process in the context of Malaysia. Thus, in order to address the above issue, this study investigates the effect of the strategic planning process in Malaysian SMEs business performance, as well as the effects of strategic planning factors on the strategic planning process.

### 1.2. Specific Objectives

- i. To investigate the significant relationship between strategic planning process and Malaysian SMEs business performance.
- ii. To investigate the significant relationship between employee participation, implementation incentive and strategy evaluation and control on strategic planning process.

## 2. Literature Review

### 2.1. Business Performance

The most important part of an organization is the performance, where performance is viewed as the success of an organization in achieving valuable outcomes, such as high returns (Memon & Tahir, 2012). Based on Smith & Reece (1999), business performance is defined as the organization's ability to meet the desire result as determined by the company's major shareholders. On the other hand, it is to determine whether the actual output of an organization is as what has been targeted (Al Qudah *et al.*, 2014). Thus, to achieve high business performance, organizations need to attain and sustain competitive advantages. For this reason, many researchers had argued that strategic planning makes organizations have competitive advantages and the ability to stay in business against competitors.

They need to know the correct performance level is important due to it enable the organization to determine its current position and find ways to improve business if necessary. Consequently, the measurement of business performance has captured the attention of many scholars such as Wheelen & Hunger (1995); Suklev & Debarliev (2012); Matsoso & Benedict (2014) due to its complexity. Different researchers have different ways to measure performance. Mandy (2014) summarized in his review that the best way to evaluate performance is by effectiveness, growth and productivity, efficiency, individual employee sales, the value of exports, organization total assets and operation profit ratio as a measurement.

Researcher such as Arshada *et al.* (2014) measured performance using financial indicator. Financial measure is done by measuring the sales, market share, number of employees, return on capital employed, inventory turnover, return on investment, growth and profits (Tang & Zhang, 2005). However, these indicators focus on the short term rather than long term strategy (Lonbani, *et al.*, 2014). While, other researchers such as Anyieni (2014); Robinson *et al.* (1986) suggested to perform benchmarking to compare performance with the relative competitors. Besides, Anyieni (2014) also suggests to benchmark with the pre-set target. Moreover, Dubihlela & Sandada (2014); Falshaw *et al.* (2006); Hart & Banbury (1994) suggested to used perception of the owner or managers regarding the organization's success.

The different type of measurement that has been applied has been classed as an objective or subjective. Tang & Zhang (2005) explained that an objective measure is measuring the financial records while subjective measures used the managers' perceptions regarding the organization performance. Nevertheless, many studies suggest using subjective measures due to the data for objective criteria could be inappropriate, misleading and difficult to obtain. If the data are available, the data may not genuinely represent the actual organization performance as the information may be manipulated (Siti & Perera, 2011). It is as well determined by the industry factors which make it unsuitable for cross industry comparison (Tang & Zhang, 2005). Therefore, Falshaw *et al.* (2006) concluded that the objective measures are unsuitable for the purpose of research.

In comparison, subjective measures are an easier way to measure performance (Sousa *et al.*, 2006). It is an effective manner because it permits the organization to carry out benchmark across firms (Song *et al.*, 2005). Subjective measure also enables organizations to measure the growth in sales, market share, productivity, customer satisfaction and product quality (Haber & Reichel, 2005). In fact, Falshaw *et al.* (2006) establish that the subjective and objective measures provide the same outcomes. Therefore, using subjective measures in the research provides more accurate information. In the context of SMEs, Tang & Zang (2005) found that researchers began to use subjective measures to assess the performance of SMEs.

This is because, studies by Haber & Reichel (2005) found that objective measures are hard to practice in SMEs due to the managers or owners refused to share their financial position. Moreover, Wijetunge & Pushpakumari (2014) affirms that if the objective measures used to measure the performance of SMEs in different industries, this will cause confusion because of inconsistency. Therefore, this study adopts subjective measures in order to measure the SMEs performance in Malaysia. At the same time, due to Ahmad *et al.* (2011) found that Malaysian SMEs measure performance through the financial and non-financial performance, thus this study will evaluate these components in order to identify Malaysia SMEs business performance.

### 2.2. Strategic Planning Process

The term "strategy" comes from the Greek word "Strategos" which means the art of general (Horwath, 2006). From a business perspective, strategy is an important tool for top management in controlling internal and external factors that are constantly changing. A good strategy is to have a simple long-term objective, focused and consistent (Grant, 2002). Muhammad & Khaliq (2014) defined the word "planning" as a process of thought that determines organizational goals and ways to achieve it by effectively and economically. Hence, Suklev & Debarliev (2012) defined strategic planning as an attempt to improve the strength of the organization effectively and efficiently through comparison with competitors, taking the necessary action and focusing on the goals.

Meanwhile, Muhammad & Khalique (2014); Alaka *et al.* (2011) claimed strategic planning is to bridge the gap between the current organization position and future desire destination. Which done through the process of clearly identify the organization current position, where it wants to be in the future, what changes will occur in the business environment and what it takes to get there. Besides, Ghamdi (2005) argues that engaging in strategic planning enable the organization to emerge in new markets, globalization and economic restructuring in order to become more stable in unpredictable business environment. In fact, strategic planning will also encourage the clarification of business objectives, prioritization of projects, environmental responsiveness and business resources that will enhance the organizational performance. Therefore, it can be concluded that strategic planning has become absolutely crucial in challenging environments, thus businesses need to practice strategic planning carefully and consistently in order to accomplish future ambitions.

In a context of SMEs, strategic planning is the key driver which contributes to the performance of SMEs (Anyieni, 2014; Onwe, 2014; Rajasekar, 2014). According to Balasundaram (2009), strategic planning drives small businesses towards better performance as it provides the tools to identify and take advantage of the opportunities arise and avoid threats to the business. Further, Anyieni (2014) pointed out those SMEs which adopted strategic planning as an intelligent preparation for action enabling it to understand the internal and external forces, and guide the organization action in order to improve profitability, growth and sustain the business.

However, many scholars have argued that there have been high failure rates among SME, particularly at the beginning stage (Hazlina, 2009; Fatoki, 2014). According to Anyieni (2014), most SMEs do not survive due to neglecting strategic planning, where this situation puts SMEs in a weak position and ended in failure. While, Fink *et al.* (2008) argue the reason most SMEs failed is due to lack of proper strategic planning practice. A study by Balasundaram (2009) found similar results as Kraus (2008), where the reasons for small businesses failed is because of failure to collect and use information effectively. He also stated that the reason for this failure is an informal strategic planning practice which leads to unstructured and irregular.

Similarly, Mosoti & Kamau (2014) found the high failure rates among small businesses is because not adopt formal strategic planning practices. They revealed that the failures of SMEs to effectively implement formal strategic planning are due to lack of expertise and also associated with cost. Based on the study done by Onwe (2014), the lack of expertise occurs because the organization does not involve employee in the planning process, in which he argued employee participation in strategic planning brings to efficiency in SMEs.

Therefore, SMEs need to build employee capability to ensure the success of strategic planning. In fact, SMEs also needs to understand the factors that can contribute to the effectiveness of strategic planning and eliminates the factors that contribute to the improper strategic planning. Lastly, the company's key strategic plans need to be reviewed continuously to ensure it is always relevant in the business environment.

### 2.3. Employee Participation

Participation in the competitive working environment is a crucial factor that contributes to organizational performance, where participation is viewed as the involvement of employees in establishing the organization's vision, mission, objectives, and strategies (Sandada *et al.*, 2014). Based on Farnham (1997), employee participation is the process of employee involvement, which designed to involve employees to participate in the decision-making process. Meanwhile, Lau (2014) summarized that employee participation is a process of communication between employees and employers to achieve industrial democracy, where it is to enable employees to influence the decision-making process which increases the productivity of the organization.

According to David (2001), although it is the responsibility of the owner or manager to make strategic decision in an organization, yet employees need to be involved in the process in order to get their commitment. This is because; the employee participation increases the work performed and the employee's commitment within the organization since the aim of employee participation is to improve business processes and enhances organizational productivity (Armstrong, 2006). Simultaneously, through sharing a degree of decision-making powers with employees would exploit the creativity of employees, reduce employee absenteeism and turnover and increase employee motivation as they believe they are important for the company (Voss, 2005).

Sandada *et al.* (2014) had stated that employee participation in strategic planning brings success to SMEs. For this reason, managers and owners should involve employees in the strategic planning process as it betters the quality and customer satisfaction levels (Pencarelli *et al.*, 2013). The employee participation in the strategic planning process is important in order to generate awareness and understand the organization goals and plans (Mohsin *et al.*, 2012). Employees will clearly understand the strategy if they are involved in the strategic formulation, including breaking down the strategy into specific objectives, work plan and targets (Wencilas *et al.*, 2015), where this could be helpful in carrying out the strategic successfully during the execution stages.

Ehlers & Lazenby (2007) found that people barriers are one of the main reasons which prevent the implementation of the strategy to be successful, where this barrier could be overcome by involving them in the process. Furthermore, employee participation in the strategic planning process brings cooperation in the business, due to its involved staff from all units and from different hierarchical levels to work together as a team (Ketokivi & Castane, 2004). Well, once workers involved in the strategic planning process, they become enthusiastic and motivated to work as their ideas and opinions received by the management (Speculand, 2009), as a result the organization performance improves. However, workers at the lower hierarchical level are rarely involved in the strategic planning process, although they possess important knowledge which could bring success to the organization (Kibachia *et al.*, 2014).

Simultaneously, this causes them to have less exposure to the strategy and eventually cause problems in strategy execution. As a result, employee leaves their profession due to suffer from job stress (Shahsavari *et al.*, 2014). Based on Onwe (2014), there are a few reasons that why the organization does not involve employee in the strategic planning process, the reason is the lack of compensation policy; lack of training and development activities in building employee capability to involve in the strategic planning process; lack of

career development opportunities which delay the organization's success simultaneously affects the firm profits (Onwe, 2014). Therefore, to overcome this limitation, Onwe (2014) suggest that SMEs should provide training to employee in related field, provide equity based compensation system and develop an effective system for career planning.

Also, aligning the employee objective with the management objective will improve service quality, creating training for employees, establishing innovation plan, enhance employees' knowledge and accomplishments and also getting rid of the differences between employees and management which will increase the degree of employee participation (Shahsavari *et al.*, 2014). Moreover, managers or owners should influence those who resisting to beliefs that everyone in the organization needs to be involved in order to achieve the organizational goals (Speculand, 2009). Strategic planning also cannot be effectively carried out if the management control system such as budget and reward system is not integrated (Werlin, 2000).

Therefore, organization should integrate employee participation and motivating reward system due to it has a positive influence on the strategy implementation (Rajasekar, 2014). However, it is hard to prove the relationship between the level of employee participation and the success of the strategic planning process in SMEs, due to lack of research has been conducted in this area (Hakimpoor, 2014). Thus, there is a need for research in this subject area to sustain the relationship.

#### 2.4. Implementation Incentive

Strategies drive organizations to achieve high business performance due to it provides competitive advantage to the organization. This alone can be reached when the proper formulated strategy being carried out effectively (Onwe, 2014). According to Ehlers & Lazenby (2010), strategy implementation is defined as a process that converts strategic plan into a series of action task to enable the execution process. Based on Thompson & Strickland (2003), effective strategy execution ensures the organization's vision, mission and objective be accomplished as planned. Consequently, management must take on an important part in assuring the success of strategy implementation as it forces the system to accomplish goals and survive in an unstable business environment (Rajasekar, 2014).

Most literatures had reported that the strategic implementation is much more difficult than strategy formulation (Rajasekar, 2014; Martin, 2011). King'ola (2001) pointed out that the successful strategy implementation consists of the allocation of resources, organizational structure design, managing human resources, approaches to leadership and staff, developing information and decision processes and reward systems. Moreover, successful execution of the strategy also depends on the efforts of management to carry out the evaluation and control process (Pearce & Robinson, 2009), at the same time motivating employees to implement the strategy effectively (Steiner, 2004). Therefore, if any of the elements not working effectively may lead the strategy implementation to failure.

Meanwhile, a study done by King'ola (2001) found that 82 percent of managers believe they have less control over strategy implementation, while 73 percent of them accepted that strategic implementation is much more difficult than strategic formulation. Cater & Pucko (2010) found that 80 percent of organizations possess the right strategy, but only 14% were successful in implementing. In fact, Rajasekar (2014); King'ola (2001) concluded that more than 70 percent of organizations failed to implement their strategic plans although it is important to achieve organizational goals. According to Dye's & Sibomy (2007), 45 percent of organizational failure to implement their strategic plan due to lack of effective strategy evaluation and control operation. While, Ivancic (2013) found that most managers know little about how to execute strategy which led efforts to failure and waste of substantial resources.

Still, most researchers argued that the reason behind these failures are improper organizational structure to support execution, lack of effective communication, lack of coordination, lack of motivation and an ineffective reward system (Ivancic, 2013). According to Ehlers & Lazenby (2007), a people barrier is one of the main reasons that hinder the strategy implementation to succeed, it is because the middle level management and lower level staff do not involve in the strategic preparation and execution process (Onwe, 2014). Thus, to defeat this obstacle, Ehlers & Lazenby (2007) suggest the management to use an incentive to prompt employees to engage effectively in the process. In addition, most researchers believed lack of motivation and an ineffective reward system as the decisive elements that led to strategy implementation failure (Sandada *et al.*, 2014; Dubihlela & Sandada, 2014; Rajasekar, 2014).

Therefore, Dubihlela & Sandada (2014); Rajasekar (2014) argued that organizations should motivate employees through a reward system because it stimulates their participation in order to maintain good performance and make them more efficient. This is because rewards or incentives have a positive influence which can direct the employee's ability to more efficiently, and similarly as a driver to the success of strategy execution. However, a study from Ehlers & Lazenby (2007) found that only 25 percent of organizations that offer rewards for this purpose. Therefore, Dubihlela & Sandada (2014) suggest SMEs to provide implementation incentive to move employees to achieve corporate goals, where implementation incentive is determined as the organization use rewards to motivate employees to perform (Dubihlela & Sandada, 2014). It is a material and moral values presented to employees as a token of appreciation (Alfandi & Alkawsawneh, 2014).

Furthermore, according to Kee-Luen (2013), SMEs can achieve better performance when emphasis is given to the implementation and control. Moreover, Popa *et al.* (2012) proposed to link the strategy implementation with the performance appraisal; it is to achieve employee commitment in implementing the strategy and resolve problems that hinder the achievement. In fact, Hamukwaya & Yazdanifard (2014) believes this method will benefit the organization. Nevertheless, management should have the ability to carry out and measure the incentive system so that the organization objective can be achieved (Sengul, 2012). If not, the incentives may give a negative impact on employee diligence if the incentives do not match with their efforts (Alfandi & Alkawsawneh, 2014).

#### 2.5. Strategy Evaluation and Control

Strategic planning led SMEs to high performance when the formulated strategy is implemented effectively. Thus, it is important to determine the successful implementation of strategic so that all efforts directed to the accomplishment of the objectives. The stage of

strategy implementation is assessed by the management through strategic evaluation process. Based on Elshamly (2013), strategy evaluation is the process of identifying the level of strategy implementation; it is to specify whether the organization is in the right way and can achieve its strategic aims. Meanwhile, Carpenter & Sanders (2009) described strategic evaluation as the indicator that provide early signals to the various factors that might interfere with the success of the strategy that prompt the management to start questioning the strategy, execution process or the leaders' reliability and competency.

Strategy evaluation played vital roles to protect the business from collapse (Dubihlela & Sandada, 2014). Moreover, it prevents organizations from making the wrong decision because it identifies disruptions before they lead to serious damage, as it provides important information for management to anticipate problems if the internal and external changes occur (Elshamly, 2013). Therefore, ineffective evaluation can limit success or create worse problems (David, 2001). Conversely, strategic evaluation can be carried out effectively by setting objectives and evaluating actual results against the objectives (Dubihlela & Sandada, 2014).

Therefore, the management needs to ask the right questions to ensure their effectiveness (Onwe, 2014). According to Popa *et al.* (2012), the model developed by Seymour Milles can help in asking the right questions. Seymour Milles suggested that the organizations ask whether it has a consistent strategy associated with strategic elements such as vision, mission, objectives, environment, resources and other different elements; whether the predicted risks are acceptable; whether the time provided adequately; whether the chosen strategy in accordance with the values of employees; and whether the chosen strategy can be implemented? This is important for ensuring that the formulated strategies can achieve the organizational goals in a timely manner with the available resources. Simultaneously, it is also to ensure that any risk of changes in the environment can be adapted by strategy. In fact, this model also emphasizes that the organizations should review its capabilities and competencies for successful implementation of the strategy (Popa *et al.*, 2012).

In addition, Hunger & Wheelen (2010); Johnson & Scholes (2002) stated that strategy can also be evaluated using the scorecard method which was developed by Kaplan and Norton. This method allows each objective in strategy be integrated with each other including reward, budget and information, in order to build a bridge between the present situation and goals (Kotha & Swamidass, 2000). At the same time, it also eases the evaluation process as it allows the associated objectives to be evaluated sensibly as the objectives been set based on the criteria used for evaluation (Hunger & Wheelen, 2010). The effective evaluation method is important because the key activity of strategic evaluation is to provide results, whether the strategy execution meet the organization objectives (Ivancic, 2013).

These results are essential for further action if the process is pointing any problems that interfere with the functioning of the organization toward the goal (Hunger & Wheelen, 2010). Therefore, it should be performed continuously and not just at the end of the years (King'ola, 2001; Tunji, 2013), so that corrective action could be taken to eliminate the problems that hinder the achievements (David, 2011). Periodic evaluations keep the strategic plan flexible so that it can be linked to the organizational competencies (Goncalves, 2009). By doing it effectively, it allows the organization to achieve its goals (Drucker, 2004), even the management time and effort will be spent on beneficial activities (Arasa & K'Obonyo, 2012), as the checking on the feasibility of implementation are also taken into account (Tomlinson & Dyson, 1983). Besides, the available resources will also be used by considering about the future resource availability (Tomlinson & Dyson, 1983).

Although most organization found this process challenging (Hunger & Wheelen, 2010), however, it provides important information as it exposed various shortcomings and irregularities that caused the failure in achieving objectives (Popa *et al.*, 2012). Hence, this process eases the management to take action to rectify the situation so that the organization will back in the right direction in order to achieve the objectives, this action is referred to as strategic control (Popa *et al.*, 2012). Besides, strategic control also seen as an attempt to assist management to deal with changes quickly through corrective actions so objectives could be achieved (Edwards & LaFief, 2004). It is not only enabling the organization to measure progress against standards, cost, date and quality (Nah *et al.*, 2001), but also provide guidance, support and direction to motivate managers and employees in achieving better results (Popa *et al.*, 2012). Based on Kraus (2008), an effective control helps organizations to identify opportunities in the changing business environment, respond to the new situation, controlling complex situations and deal with uncertainty. It has the ability to manage risk, improve performance and defences any business from failure (IFAC, 2012).

Evaluation and control not only bring the organization back to the right track, but it also provides information to the management on the cause of the failure in achieving its objective (Dubihlela & Sandada, 2014). Simultaneously, it enables the organization to determine the effectiveness and react to the new challenges (Johnson & Scholes, 2002). Although strategic evaluation and control cannot remove all irregularities and errors, yet through controlling the strategy, SMEs could escape from the big problems (Tunji, 2013). Therefore, Dubihlela & Sandada (2014) advised SMEs to adopt a strategy evaluation and control because it can lead the organization towards high performance. However, Edwards & LaFief (2004) has pointed out that in the strategic management literatures, there is limited or no attention has been given regarding strategy evaluation and control. Therefore, SMEs should implement strategic evaluation and control because it not only allows SMEs to deal with unstable market conditions (Popa *et al.*, 2012), but at the same time bringing the organization back on track (Dubihlela & Sandada, 2014).

## 2.6. Relationship between Employee Participation and Strategic Planning Process

Many researchers have studied the relationship between employee participation and strategic planning process. Most of the studies generally found that employee participation in the strategic planning process is important to help organizations achieve their goals. Based on the study done by Ketokivi & Castañer (2004) in Germany, Italy, Japan, United Kingdom and US investigates whether organizations that provide opportunities for employees to voice opinions in the strategic planning process will increase their

commitment to achieve organizational goals, they found that employee participation would increase employees' loyalty and commitment to organizational goals.

Meanwhile, Tegarden *et al.* (2005) whose conducted research in U.S to investigate whether the involvement of employees in the strategic process will lead to achieving highest strategic goals had found a positive significant relationship between multi-level strategy processes and strategic goals as well as significantly affect firm performance. Particularly, according to Bhatti *et al.* (2011) who conducted studies in Pakistan and U.S, had found there is a significant and positive relationship between direct employee participation and the strategic planning process in the banking sectors. Based on the finding, the researchers argued the organizations that do not involve employees in the strategic planning process received a worse commitment from employees.

Correspondingly, empirical study of Suklev & Debarliev (2012) had revealed a positive relationship where the involvement of employees in the strategic planning process helps improve the effectiveness of the company's strategic planning. This statement is strengthened by the findings of Wairimu & Theuri (2014), they examine the factors that affected the employee involved in the strategic planning process in Kenya. They mention that the staffs at lower levels of the hierarchy have less exposure to the process compare to senior and middle level managers. This causes them unaware about the information and their role in the strategic planning process.

Research conducted by Stefanovska-Petkovska *et al.* (2014) investigate the public administration employees job satisfaction had described; the delivery of effective communication style by a management team in the strategic planning process to employees has significant effect on job satisfaction. In which had increased employee motivation in accomplishing organizational goal. Besides, Sandada *et al.* (2014) investigate the influence of strategic planning aspects of business performance had found that employee participation is the most positively significant aspects in determine strategic planning. However, research by Elbanna (2008) found surprising results, where the involvement in the strategic planning process and effectiveness of achieving strategic planning have no relationship to each other. The researcher explained, this happened due to the incomplete nature of contextual variables on his model have caused the result influenced by other variables. Therefore, this study proposed the following hypothesis:

- H<sub>1</sub>: Employee Participation has a significant and positive effect on strategic planning process.

### 2.7. Relationship between Implementation Incentive and Strategic Planning Process

Conceptual study by Nahet *et al.* (2001) to review the factors of ERP implementation explains the implementation incentive is the key factor that influences the success of strategic implementation. This statement is strengthened by empirical study by Smith (2011) that examines eight strategy implementation tasks, namely organizational capability, resources, policies and procedures, continues improvement, information, incentive, culture and leadership on classification data. The researcher found resources and incentive was the highest positive significant factor which indicates the strong influence as strategy implementation tasks.

Furthermore, according to Ndegwah (2014), 80% of the respondents said rewards and incentives were a very significant in influencing implementation of strategic plans. Negwah found the finding during analyzing the factors that influencing strategic implementation. Besides, survey by Sandada *et al.* (2014) to 200 SMEs managers and owner-managers in South Africa found that the implementation incentive in strategic planning has a positive relationship with the company's performance, where they concluded it as the most influential factor to improve business performance. The researchers also explained incentive in the form of monetary or non-monetary is able increase employee motivation to achieve the strategic goal.

Meanwhile, Dubihlela & Sandada (2014) found that there is a positive relationship between implementation incentive and strategic planning process although it is seen to be less significant. This could be explained by Pass *et al.* (2000) who found there is no significant relationship between implementation incentive and strategic planning process. Pass *et al.* (2000) explained that the incentive implementation plan takes approximately five years to increase performance effectiveness, so it is less attractive. Therefore, this study proposed the following hypothesis:

- H<sub>2</sub>: Implementation incentive has a significant and positive effect on strategic planning process.

### 2.8. Relationship between Strategy Evaluation and Control and Strategic Planning Process

Few researchers had examined the relationship between the evaluation and control over the strategic planning process. Piorun (2011) had investigated the method to evaluate strategic plans by literature and interviews. Based on the finding, the researcher noticed that there are two types of evaluation; First, evaluate the strategic planning process and then implementation; second, evaluate the outcome or impact of the plan. Besides, from the results of the interview, most respondents admitted they were using informal strategic evaluation and the decisions are not documented due to lack of awareness of strategic.

Research by Birinci & Eren (2013) that executes a survey of 130 universities in Turkey to investigate the impact of management processes on the organizational performance has found that the strategic control has a positive and significant effect on the strategic management process. They also had revealed what needs to be done during the planning stage. Furthermore, research by Sandada *et al.* (2014) had found that the evaluation and control has a positive relationship with the strategic planning process. The researchers explained the evaluation and control as a review of progress towards achieving the objectives and targets, then take corrective action to resolve the problems that prevent progress.

Finally, Dubihlela & Sandada (2014) who was examining the influence of strategic planning aspects such as employee participation, implementation incentive, strategy evaluation and control on strategic planning process has found there is a significant impact on the evaluation and control over strategic planning process effectiveness. Therefore, this study proposed the following hypothesis:

- H<sub>3</sub>: Strategic evaluation and control has a significant and positive effect on strategic planning process



### 2.9. Relationship between Strategic Planning Process and SMEs Business Performance

Several studies have found a significant positive relationship between strategic planning and SMEs business performance. This assertion is supported by Kee-Luen *et al.* (2013), who found a positive relationship between strategic planning process and SMEs business performance in Perak, Malaysia. The researchers believe the role of strategic planning can help SMEs improve their business performance, particularly in terms of financial performance and customer satisfaction. Also, according to Hakimpoor (2014), strategic planning is more affected on the non-financial performance, especially customer satisfaction, product quality and market share.

The determination of a significant impact on strategic planning and business performance is discussed by other researchers such as Karel *et al.* (2013) that explained, 80% of his appraisal toward the performance parameter shows that the company that owns a detailed written strategic planning are positively influenced SMEs business performance than informal strategic planning. Particularly, Blackburn *et al.* (2013) contend apart from the business plan documentation, the company's size and age also an important element that plays a role in regulating the level of SMEs business performance.

Another study done by Mosoti & Kamau (2014) on the strategic planning process in Kenya' SMEs found positive relationships between the nature of the SMEs strategic plan and business performance. The finding also highlighted there are minor differences between SMEs who have formal and informal strategic planning. Correspondingly, literature reviews by Anyieni (2014) establish a confident relationship between strategic planning and business performance, while he reasoned out that SMEs which do not have strategic planning either formal or informal are facing high failure.

Furthermore, Onwe (2014) noted that SMEs in Nigeria is faced challenging business environment such as difficulty in obtaining raw materials, high cost and changes in government policies. As his study shows strategic planning provide a positive effect on SME profitability, therefore he believes SMEs in Nigeria required strategic planning to conform such challenges in order to survive. This statement is strengthened by the findings of Dubihlela & Sandada (2014) in South Africa, which emphasizes strategic planning to furnish a substantial positive impact on SMEs business performance especially on revenue and profits.

Sandada *et al.* (2014) carried out a survey of 200 SMEs managers and owner-managers in South Africa to study the relationship between strategic planning and SMEs business performance. Their findings suggest a confident relationship between strategic planning and SMEs business performance. Similar outcome was founded by Wijetunge & Pushpakumari (2014) that had executed a number of 275 survey on owners/managers of SMEs manufacturing in Sri Lanka. Although researchers had mentioned the importance of strategic planning and found positive relationship, but the study also demonstrated that only a handful of SMEs is involved in the strategic planning process.

Nevertheless, a study from Gica & Negruab (2011) which reviews the nature of the relationship between strategic planning and 200 SMEs performance in Romania have found that strategic planning and SMEs business performance are not related to each other. This is because the author examines the level of business performance based on subjective evaluation and the companies that involved differ in terms of dimension and business activities. Thus, this study offered the following hypothesis:

- H<sub>4</sub>: Strategic planning process has a significant and positive effect on Malaysian SMEs' business performance.

### 2.10 Proposed Research Framework

From the literature reviews that had been discussed above, the current study suggested the research framework consists of five variables which are employee participation, implementation incentive, strategy evaluation and control, strategic planning process and business performance. The employee participation, implementation incentive, strategy evaluation and control are suggested due to it could improve the strategic planning process. While the strategic planning process is proposed as it could bring high business performance to SMEs.

Since the current study proposal is similar to the research framework that was developed by Dubihlela & Sandada (2014). Thus, the current study adopted and offered the same framework. The proposed research framework is to study the relationship of employee participation, implementation incentive and strategy evaluation and control over the strategic planning process, as well as the relationship between strategic planning process and business performance. The research framework describes the strategic planning process as an independent variable and the business performance as the dependent variable. As well the three strategic planning factors, namely; employee participation, implementation incentive and strategy evaluation and control are utilized as an independent variable in the strategic planning process. Hence, the proposed research framework is illustrated in Figure 2:

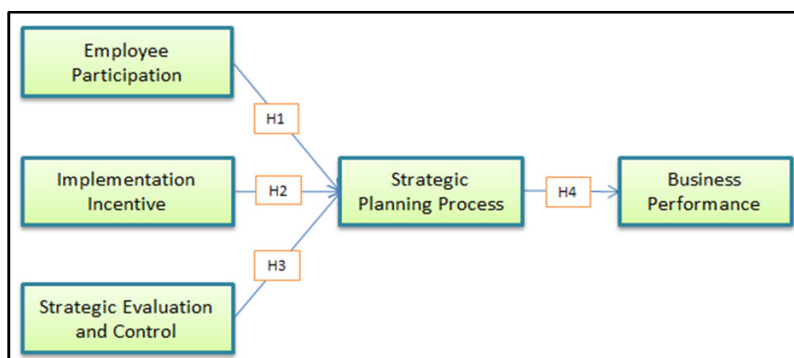


Figure 2: The Research Framework

Source: adopted from Dubihlela & Sandada (2014) research framework



### 3. Methodology

#### 3.1 Research Design

This research adopted quantitative research method. The correlation type of investigation used to discover the relationship between the independent variables and a dependent variable, further the Stepwise solution procedure of multiple regressions used to investigate the effect of independent variables on the dependent variable. This research adopted field experiment and cross-sectional study, where the data is gathered in a natural context and only once in time without considering what took place in the past or what will occur after the data is taken (Winter, 2009). Furthermore, this study took over non-probability sampling techniques as the researcher faced limitations of time, financial and workforce to assure that every individual receives an equal possibility of being chosen.

#### 3.2 Data Collection

Data were collected from SMEs that operated in Kuala Lumpur via electronic mail (email) and manual distribution. Based on Creative Research sample size calculator for a sum of 84,261 SMEs in Kuala Lumpur, with a 5% confidence interval and 95% confidence level, this study requires 382 sample size to cover the population. Therefore, the researcher has distributed a total of 1000 questionnaires in order to reach the needed sample size. A sum of 700 questionnaires has been circulated via email and a total of 300 questionnaires were distributed manually. Meanwhile, only the owners and managers are selected to fill the questionnaire as they own important impact on strategic planning process as well as other SMEs activities.

#### 3.3 Measurement Instrument

The questionnaire takes a total of 33 questions and was parted into four Sections. Section A and B covers respondents and SMEs profile, meanwhile Section C consists of independent variables which are the employee participation, implementation incentive, strategy evaluation and control and strategic planning process, and Section D consists of the dependent variable which is business performance. Section A and B covers dichotomous scale to elicit a Yes or No answer, while the category scale used to produce a single response from a list of multiple items. Furthermore, Likert scale was used in section C and D. Section C used five-point scale from strongly disagree to strongly agree to look into how strongly respondent agrees or differ with the statement of independent variables. Section D used five-point scale from very poor to very good level of agreement to investigate the level of respondents' organization's business performance.

#### 3.4 Data Analysis

The study used statistical package for social science (SPSS) version 22 for data analyzing. Firstly, the demographic data which is the categorical variables were analyzed using descriptive analysis - frequency. The next stage of the data analysis procedure is conducting the reliability test. This analysis is to measure the same scenario repeatedly to obtain the identical values. Further, this research also analysis the relationship using Pearson Correlation Coefficient. This test is to assess whether there is a relationship between independent and dependent variable. Lastly, the technique of multiple regressions being used to identify the change factors that will contribute to the change in the other variables, in which, the independent variable will affect the dependent variable (Groebner *et al.*, 2011).

### 4. Research Findings

#### 4.1 Response Rate

From the 1000 questionnaires distributed, only a sum of 204 questionnaires was gathered back from the respondents, where each respondent represents each SME. Meanwhile, from the 204 questionnaire that had been delivered to the researcher, the direct approach method received the highest collection, which is 196 questionnaires, while only 8 questionnaires were collected through the email. Yet, just 89.7% of the 204 questionnaires are usable due to a total of 21 uncompleted questionnaires were rejected. The number of questionnaires collected from respondents did not fulfil the sample size of 382, but according to Hakimpour (2014), the difficulty of involving respondents in the context of SMEs makes this response rate acceptable. He too reported that researchers who lead research in the context of Malaysian SMEs have been using up to 100 to 150 respondents in their study. Therefore, the figure of 204 respondents for this study is acceptable.

#### 4.2 Demographic Characteristics

Table 1 presents the respondents in the study. The highest number of respondents from the 183 SMEs that participated in this field was the male respondents with a total of 75.4%. This result indicated that most of the position of manager or the ownership of SMEs located in Kuala Lumpur are possessed by male. Concurrently, the highest number of respondents is the business owner which representing 30.6%, followed by junior managers (29.5%) and senior managers (26.8%). Also, on that point is less participation from CEOs in this survey, which only representing 9.3% of the answerers. Moreover, a total of 7 out of 183 respondents from others position such as executive and engineer have participated in this survey as they are involved in the strategic planning process.

SMEs in Malaysia is represented by three sectors (SMEs annual report 2014/2015) as indicated in Table 1. From the 183 of SMEs that participated in this study, the majority of participation is from the services sectors which representing 75.4%, followed by others (13.1%) and manufacturing sector (11.5%). In the services sectors, the wholesaler and retailer representing the highest figure of participation (17.5%), which is a lot more than the manufacturing and other sectors. Also, the respondents from financial and business

services represent the second highest participation of respondents (12.6%). This followed by community and social services which representing the same amount of participation with the manufacturing sector (11.5%). In addition, the least participation is from the mining and quarrying sector and also the agriculture sector, where each of these sectors represents 1.1% of the respondents. Furthermore, the moderate participation is from the construction sector, which representing 10.9% of the respondents, followed by 8.7% of electrical, gasoline and water sector. Further, motor trade and repair sector represent 7.1% of respondents, which is similar with transport, storage and communication sector. Likewise, 6% of the respondents are from commercial agents, whereas 4.9% of the respondents are from tourism and catering.

Besides, in this study, the majority of SMEs who participates are those that have been operating for five years and below (33.9%), followed by 25.1% of SMEs that operated for more than 21 years. In addition, there are 21.9% of SMEs that operated between six to 10 years, followed by 19.1% of SMEs have been operational from 11 to 20 years.

Gender	Freq	Percent	Industry Sectors of SMEs	Freq	Percent
Female	45	24.6	Manufacturing	21	11.5
Male	138	75.4	Services	138	75.4
Total	183	100	Electrical/Gasoline/Water	16	8.7
<b>Position held in SMEs</b>			Wholesale/Retail	32	17.5
Business Owner	56	30.6	Motor Trade and Repair	13	7.1
CEO	17	9.3	Commercial agents	11	6.0
Senior Manager	49	26.8	Tourism/Catering	9	4.9
Junior Manager	54	29.5	Financial/Business Services	23	12.6
Other	7	3.8	Transport/Storage/Comm.	13	7.1
Total	183	100	Community/Social Services	21	11.5
<b>SMEs' Operational Period</b>			Others	24	13.1
Less than 5 years	62	33.9	Agriculture	2	1.1
6 to 10 years	40	21.9	Construction	20	10.9
11 to 20 years	35	19.1	Mining/Quarrying	2	1.1
More than 21 years	46	25.1	Total	183	100
Total	183	100			

Table 1: The Demographic Characteristics

#### 4.3 Implementation of Strategic Planning in SMEs

Table 2 indicates that 90.7% of 183 SMEs that participated in this study adopted strategic planning process, in which 70.5% of the SMEs has formal strategic planning while 20.2% of them have informal strategic planning. Nevertheless, 9.3% of the SMEs claimed their organization does not have strategic planning. Moreover, Table 2 also shows that from the 166 of SMEs that adopted strategic planning; only 52.4% of those SMEs used the strategic planning completely or almost completely, while the other 47.6% of the SMEs only used the strategic planning partly. Besides, the 75.3% of SMEs that adopted strategic planning have the specific department or person to monitor the strategic planning process, whereas the others 24.7% of SMEs does not have any specific department or person to monitor the strategic planning process.

Existence of Strategic Planning	Freq	Percent
Formal	129	70.5
Informal	37	20.2
No	17	9.3
Total	183	100
<b>Type of Used</b>		
Used partly	79	47.6
Used completely or almost completely	87	52.4
Total	166	100
<b>Specific Department/ Person to Monitor Strategy</b>		
Yes	125	75.3
No	41	24.7
Total	166	100

Table 2: Implementation of Strategic Planning in SMEs

#### 4.4 Reliability Test

In this section, the Cronbach's Alpha is computed to assess the reliability of Employee Participation (EP), Implementation Incentive (II), Strategic Evaluation and Control (EC), Strategic Planning (SP) and Business Performance (BP). As shown in Table 3, the Cronbach's Alpha Coefficient for EP, II, EC, SP and BP are 0.90, 0.91, 0.92, 0.90 and 0.80 respectively. This indicates that the

Coefficient for each variable is above 0.7; therefore, all of the variables possessed high reliability value (Piaw, 2013). As a result, no any item need to be deleted from the variables.

Variables	No of Items	Cronbach's Alpha Coefficient
Employee Participation	5	0.90
Implementation Incentives	4	0.91
Evaluation and Control	5	0.92
Strategy Planning	5	0.90
Business Performance	5	0.80

Table 3: Reliability Test

#### 4.5 Pearson Correlation Coefficient Analysis

This study used Pearson Correlation analysis to investigate the strength, direction and the significant relationship between independent and dependent variables. As described in Figure 2, the strategic planning process (SP) is the independent variable and the business performance (BP) as the dependent variable. Besides, three strategic planning factors, namely; employee participation (EP), implementation incentive (II) and strategy evaluation and control (EC) are used as an independent variable in the strategic planning process. To investigate the relationship of independent and dependent variables, the positive or negative sign in front of the coefficient value is first determined. The positive sign indicates that the relation of this variable is moving in the same direction, while conversely if it shows negative sign. Next, the coefficient value is used to determine the strength of the correlation relationship.

According Piaw (2013), the strength of the correlation can be divided into 6 groups, if the coefficient is 0.91 to 1.00; it indicated very strong correlation strength. Meanwhile, if the value of the coefficient is 0.71 to 0.90, there is a substantial correlation between the two variables. Similarly, if the value of the coefficient is 0.51 to 0.70, it shows the average correlation strength. However, the correlation strength is weak or very weak if the value of the coefficient of 0.31 to 0.5 or 0.1 to 0.3 respectively. Finally, there is no correlation strength if the value of the coefficient is 0.00. Normally, the significance level is  $P < 0.05$ , this indicates how much confidence obtained from the results. The result of correlation coefficient for the three strategic planning factors and strategic planning process is shown in Table 4.

	EP	II	EC	SP
EP	1.000			
II	.641**	1.000		
EC	.667**	.733**	1.000	
SP	.619**	.660**	.823**	1.000

Table 4: The Correlation Coefficient Result for Strategic Planning Factors

\*\* . Correlation is significant at the 0.01 level (2-tailed)

Table 4 shows there is an average and positive correlation between EP and SP ( $r=0.62$ ). This implies there is an average positive relationship between EP and SP. Meanwhile, there is an average correlation between II and SP ( $r=0.66$ ) with a positive direction, where this means there is an average positive relationship between II and SP. Moreover, the result shows there is a strong and positive correlation between EC and SP ( $r=0.82$ ). Thus, it can be said at that place is a strong positive relationship between these two variables. All this correlation is significance at the  $P < 0.01$ .

Meanwhile, the result of correlation coefficient for the strategic planning process (SP) and the business performance (BP) is shown in the Table 5. As indicated, there is a weak and a positive correlation between SP and BP ( $r=0.41$ ) at significance level  $P < 0.01$ . Hence, there is a positive relationship between strategic planning process and business performance, although there is a weak correlation.

	SP	BP
SP	1.000	
BP	.405**	1.000

Table 5: The Correlation Result for Strategic Planning and Business Performance

\*\* . Correlation is significant at the 0.01 level (2-tailed)

#### 4.6 Hypotheses Test Result

As the study aim is to investigate the effect and significance relationship between strategic planning process and Malaysian SMEs business performance as well as the relationship between strategic planning factors (employee participation, implementation incentive, strategy evaluation and control) and strategic planning process by using standard multiple regressions. This study used a Stepwise solution procedure of multiple regressions because of its advantage of utilizing the significant variables in regression. In addition, the effect of firm correlation between variables is meaningless and lead to inaccurate analysis as it will cause a multicollinearity problem exists. Thus, the use of Stepwise will solve this problem as only the important variable will be included in the regression (Piaw, 2013). Table 6 presents the multiple regression analysis for strategic planning (independent variable) on business performance (dependent variable). As indicated, in the respect is a correlation between the strategic planning process and business performance ( $\beta=0.405$ ,  $P < 0.001$ ). In addition, the value of  $R^2$  (0.164) also showed that 16.4% of the change in the strategic planning process will contribute to

the change in business performance. Yet, the other 83.6% of changes could not be predicted due to it may cause by other variables that not study in this research. Meanwhile, Table 7 shows the multiple regression analysis for strategic planning factors, namely employee participation, implementation incentive and strategy evaluation and control (independent variable) on strategic planning process (dependent variable).

As shown in Table 7, there is a substantial correlation between the strategy evaluation and control and the strategic planning process at ( $\beta=0.740$ ,  $P<0.001$ ). Besides, there is also a significant correlation between the strategic planning process and employee participation at ( $\beta=0.125$ ,  $P<0.05$ ). In addition, the  $R^2$  value showed that 67.8% of the change in the strategic evaluation and control will contribute to the change in the strategic planning process. Merely, the employee participation has not contributed much, as only contribute 0.9% (68.7% - 67.8%) of additional changes in the strategic planning process. Withal, the Beta coefficient shows there is a linear combination form for the two predictors and dependent variable. On the other hand, Table 8 shows that the implementation incentive does not conduce to the changes in the strategic planning process, although the Beta shows the effect of the predictor in the linear combination, this is due to the significance of this variable at ( $P>0.05$ ).

Predictor	R	R Square	Beta Coefficient	t-test	Sig. (P)
Strategic Planning	0.405	0.164	0.405	5.680	0.000

Table 6: Multiple Regression Analysis for Dependent Variable: Business Performance

Predictors	R	R Square	Beta Coefficient	t-test	Sig. (P)
1. Evaluation Control	0.823	0.678	0.823	18.588	0.000
2. Evaluation Control Employee Participation	0.829	0.687	0.740 0.125	12.569 2.127	0.000 0.035

Table 7: Multiple Regression Analysis for Dependent Variable: Strategic Planning

Predictors		Beta In	t	Sig. (P)	Partial Correlation	Collinearity Statistics
						Tolerance
1	Employee. Participation	0.125 <sup>a</sup>	2.127	0.035	0.164	0.554
	Implementation Incentive	0.121 <sup>a</sup>	1.877	0.062	0.145	0.463
2	<b>Implementation Incentive</b>	<b>0.088<sup>b</sup></b>	<b>1.308</b>	<b>0.193</b>	<b>0.102</b>	<b>0.421</b>
a. Predictors in the Model: (Constant), Evaluation Control						
b. Predictors in the Model: (Constant), Evaluation Control, Employee Participation						

Table 8: Dependent Variable: Strategic Planning (Excluded Variables)

## 5. Discussion

This study employed a total of 183 usable questionnaires to examine the proposed hypotheses. Since this study took the research framework proposed by Dubihlela & Sandada (2014), hence the research findings of Dubihlela & Sandada (2014) will be used to compare with this study, and then studies by other researchers will be used to discuss the results. Similar to this study, Dubihlela & Sandada (2014) has conducted a study to test the hypothesis by using quantitative approach, where they conducted a total of 200 surveys and interviews the senior managers of SMEs in Ekurhuleni, South Africa. Meanwhile, the current research was conducted in Kuala Lumpur and only conducted surveys to 183 SMEs to test the hypothesis. In addition, the industry sectors of involved SMEs, the position of the targeted groups and the SMEs period of operation of the two studies are similar. Also, both of the study also used almost similar questions to measure the variables. However, both studies have used different software for the hypothesis testing, where Dubihlela & Sandada (2014) adopted Structural Equation Modelling (SME) and the current study used SPSS version 22. The following section will discuss the finding of each hypothesis in the study.

### 5.1 Hypothesis 1 ( $H_1$ )

The employee participation has a significant and positive effect on strategic planning process, where this result also same with the finding of (Dubihlela & Sandada, 2014). Moreover, other researchers such as Sandada *et al.* (2014); Ehlers & Lazenby (2007); Wencilas *et al.* (2015), also supported this hypothesis as they believe the employee participation in the strategic planning process could be helpful during the strategy implementation phase. Meanwhile, Dubihlela & Sandada (2014) found that employee participation has a strong effect on strategic planning process for 76%, but this study found a surprising result where employee participation only provides 0.9% effects of the strategic planning process. This may be explained by the statement of Salkind (2010), in which without giving equal opportunities to all SMEs in the population to be selected provide limitation to this research. Therefore, it can be concluded that, this result may be due to the effect of employee participation may depend on the company culture as culture is not the same across all circumstances.

### 5.2 Hypothesis 2(H<sub>2</sub>)

The implementation incentive does not affect the strategic planning process. This was unexpected due to Smith (2011) found incentive was the highest positive significant factor which indicates the strong influence of strategy implementation tasks. Meanwhile, Dubihlela & Sandada (2014) found that the implementation incentive has a positive effect on South Africa SMEs strategic planning process, but less significant as only contribute 31%. Therefore, the statement of Ivancic (2013) is used to explain the reason implementation incentive failed to affect the strategic planning process, especially during the implementation phase. This is because the reason behind these failures are improper organizational structure to support implementation, lack of effective communication, lack of coordination, lack of motivation and an ineffective reward system. Besides, Pass *et al.* (2000) found incentive plan implementation takes approximately five years to increase performance effectiveness. Thus, long-term incentive makes it an unattractive.

### 5.3 Hypothesis 3(H<sub>3</sub>)

The strategy evaluation and control have similar results with Dubihlela & Sandada (2014), where the strategy evaluation and control has a significant and positive effect on strategic planning process. Besides, Dubihlela & Sandada (2014) found strategic evaluation and control effects 73% in the strategic planning process. While the current study found 67.8% of strategic evaluation and control affects the strategic planning process. This high effect can be understood by the clarification of Dubihlela & Sandada (2014), where the strategy evaluation and control played vital roles in the strategic planning process as it protects the business from collapse. This is because strategy evaluation and control not only bring the organization back to the right track, but it also provides information to the management on the cause of the failure in achieving its objective (Dubihlela & Sandada, 2014).

### 5.4 Hypothesis 4 (H<sub>4</sub>)

The strategic planning process has a significant and positive effect on Malaysian SMEs' business performance. As expected the result of this study is similar to the finding of Dubihlela & Sandada (2014). Besides, Anyieni (2014); Onwe (2014); Rajasekar (2014) also supported this hypothesis as they explained strategic planning is the key driver which contributes to the performance of SMEs. However, this study found that strategic planning process only affects business performance for 16.4%, but Dubihlela & Sandada (2014) found that strategic planning process has strong impact on business performance for 79%. This difference can be understood by the clarification of Balasundaram (2009); Kraus (2008), in which they explained that the practice of informal strategic planning process make the organization could not contribute to higher business performance. This is because, the informal strategic planning process leads to unstructured and irregular way to collect and use information effectively. In fact, this practice may lead to high failure rate among SMEs (Mosoti & Kamau, 2014).

## 6. Conclusion & Recommendation

The most important part of an organization is the performance as it is the success of achieving a valuable outcome. Therefore, to achieve high business performance, organizations adopted strategy planning to attain and sustain competitive advantages. Although organizations deal with the unstable business environment, but the competitive advantages will enable it to achieve organizational goals. Moreover, employee participation and strategic evaluation and control are important to attain and sustain competitive advantages. The resources such as employees' skills and the process and procedure are used to gain and sustain competitive advantages for the organization's success. Meanwhile, the control system is used by management to control employee in the execution of strategy, to ensure the organization has the proper planning and to evaluate the progress towards achieving the goals of the organization.

This study proves that the strategic evaluation and control give high impact to the strategic planning process. In fact, the strategic planning process has a significant and positive effect on Malaysian SMEs' business performance. It provides 16.4% of effect because almost 50% of SMEs do not use them effectively. In addition, this study also tells that while employee participation affects slightly to the strategic planning process (strategic formulation), but it contributes to the success of the organization as a whole, this is because employee participation in the strategic planning process will enable employees to understand the organization's plans and objectives, which could be helpful in the strategy implementation phase that lead to achieve organization goals.

Thus, from the theoretical standpoint, this study has contributed to the literature of business performance, strategic planning process, employee participation, implementation incentive and strategy evaluation and control in the context of Malaysian SMEs. In the literature of Malaysian SMEs, there are prior studies done to test the relationship between strategic planning process and SMEs business performance. Thus, this study supports the previous findings where strategic planning is one of the important factors for the success of SMEs. Furthermore, in previous studies, strategic planning process was used to test the SMEs business performance, but in this study, employee participation, implementation incentive and strategy evaluation and control are added to test their effects on strategic planning process. Therefore, by incorporating employee participation, implementation incentive and strategy evaluation and control as predictors of the strategic planning process, makes this research unique and comprehensive from other studies in Malaysia.

Based on these findings, future studies should investigate why the implementation incentive does not contribute to the strategic planning process. Besides, future studies also should investigate why employee participation provides less effect on the strategic planning process. Moreover, many other factors can be tested in this area to identify the most important factor in the strategic planning process.

From the managerial or practical standpoint, this study suggests SMEs in Malaysia to adopt a formal strategic planning process as it leads SMEs to achieve high business performance. Furthermore, this study suggests that there are several factors that can increase the

effectiveness of the strategic planning process and help in achieving the company's objectives. Thus, this understanding will make SMEs in Malaysia involves their employees in the strategic planning process; at the same time apply strategic evaluation and control to enhance the strategic planning effectiveness. In addition, this study also shows that the granting of incentive will not affect the strategic planning process, thus SMEs have to find other ways to motivate employees to achieve the company's organization.

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