To plan or not to plan in the Mittelstand?

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All the biggest companies subscribe to strategic management. But what about the SME's that provide the majority of jobs in Germany?

Most everyone believes that carefully laid plans can only reap rewards, which is why all the top companies make them. But in the German-speaking environment, the bulk of firms are small and medium enterprises (SMEs), referred to as the Mittelstand. This important part of the economy is hampered by lack of professional approaches to strategic management and could well do with them. Although the past 20 years have seen an increase in studies in this area, they're still quite thin on the ground. The subject of strategic planning in German SMEs is, therefore, ripe for research.

In "Strategic Management in the German Mittelstand: An Empirical Investigation," published in *The Management of Small and Medium Enterprises* (Routledge), Sebastian Reiche (IESE), Klaus Deimel (University of Applied Sciences Bonn) and Sascha Kraus (University of Liechtenstein) investigate to what extent SMEs in the German-speaking world employ strategic management procedures. If not, why not? Finally, they see if there is a link between such procedures and corporate success in those companies.

The authors define strategic management and planning as the attempt to prepare for future possibilities and to account for environmental dynamics and complexity. It's all about being ready for, rather than predicting, the future. It deals with what is likely to happen given present tendencies, as opposed to the development of strategic goals and visions.

To obtain answers, the authors carried out a survey-based, empirical study using a representative sample of 1,000 SMEs from various industrial sectors in Germany, Austria and

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Switzerland. They asked only top managers or owners of companies, since these are usually responsible for strategic planning. Out of the 101 responses that were received, the majority of companies had a volume of less than 5 million euros and fewer than 50 employees, thereby conforming to the E.U. definition of a small enterprise.

In the end, the authors discovered that planning - though well regarded by many managers and owners - was underused in the Mittelstand, mainly because people simply don't have the time. However, contrary to the expectation that forward planning greatly contributes to future success, the authors didn't find any clear connection.

Big means better prepared

Results from earlier studies have shown that the bigger a company, the more likely it is to plan. But the odds are stacked against smaller companies, which simply can't afford the central service departments that big companies have to deal with this aspect of the business. It's no wonder that SMEs tend to have a bad attitude when it comes to planning. They complain that strategic instruments spoil their ability to improvise, and that planning wastes precious time and is often bureaucratic. These aversions usually translate into lack of know-how and overestimating their own capabilities. On the flip side, they felt that their smaller size gave them greater flexibility and allowed them to specialize in niche fields that others couldn't.

However, most of this research was conducted back in the '80s. Had the picture changed? The authors were interested in discovering to what extent SMEs in German-speaking countries currently applied instruments of strategic planning.

The short answer is not as much as they would like. Although 75 percent of companies regard strategic planning as important or very important, half of them don't do it. Around 63 percent of smaller companies don't plan in comparison with only 12 percent of larger enterprises that don't. Bigger companies also have a larger time horizon when it comes to strategic management. Another factor that influences the extent of planning is whether the company is owner-run: SMEs managed by their owners tend to plan less, and not as well.

Why not plan?

Behind every SME, there is usually an entrepreneur. This is often the person responsible for strategic management, so their attitude toward it decides whether it is used or not.

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Previous research has found that their attitude toward planning is not particularly positive. Because planning has no obvious immediate returns, it is hard to justify devoting time and money to it. Plus, with most entrepreneurs lacking degrees in management, a lot of them wouldn't know a business plan if they saw one.

The researchers tried to identify the main motivators and barriers for applying strategic planning in SMEs in German-speaking countries. A staggering 89 percent of respondents said they thought planning would benefit the company. But, as previously thought, well over half of the companies that don't plan said that they didn't know how. The main reason cited was lack of time - managers think of planning as less urgent than the day-to-day running of the business.

Planning for success

Is all this a problem? Some research has found a direct correlation between planning and corporate success, and most authors and researchers view strategic planning as something positive. So, naturally, the authors were keen to see if there was a correlation between strategic planning and corporate success for SMEs in German-speaking countries.

They couldn't find a direct link between the use of strategic planning and return on equity or growth in revenues. However, this lack of correlation may partly be the result of methodological difficulties, and the authors impress on SMEs the importance of planning, as the weight of evidence supports it.

The study also threw up some practical suggestions. Since many SME managers lack know-how, there is a need for Mittelstand-specific planning instruments that are easy to use. Rather than focusing on whether planning pays off or not, future research might look at when and why it works.

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