

# Impact of the Formality Level on the Strategic Planning Process of SMEs

Paulina Alexandra Cadena Vinuesa<sup>1</sup>, Edwin Javier Suquillo Guijarro<sup>2</sup>, Irina EvguenievnaVerkovitch<sup>3</sup>, José Sebastián Acosta Altamirano<sup>4</sup>

## Abstract

*The article identifies the barriers that hinder the implementation of strategic planning and the relationship with the level of formality in the preparation of strategic plans of SMEs in Quito. It focuses on the manufacturing sector and its different sub-sectors, including the manufacture of food products, textiles, clothing, as well as chemical, pharmaceutical, medicinal, and botanical substances for pharmaceutical use, in addition to rubber and plastic products. The existing literature reviewed on strategic planning and tools to address the process characterizes the small and medium-sized manufacturing sector as the object of research. The subsequent field study shows the results achieved by the companies with planning and the existence or not of barriers to strategic implementation. The most common barriers have been identified in relation to factors such as resources, culture, lack of technological support, among others. Once the barriers have been identified, they are linked to the use of planning tools to determine the type of existing relationship. There is a moderate correlation between the level of complexity and the level of execution of the strategic plan. The research results will enable further research on the importance of the use of management tools in SMEs.*

**Keywords:** *Strategic Planning, Smes, Strategic Implementation Barriers.*

## Introduction

SMEs, being a vital component of the business fabric, face particular challenges in the formulation and implementation of strategic planning. Although its importance is recognized, few studies have focused on understanding the reality of SMEs in terms of strategic planning, and the difficulties in its implementation, especially in Latin America and in specific contexts such as Ecuador (Mora-Riapira et al., 2015).

Ecuadorian SMEs contribute significantly to the generation of employment and the economic development of the country. They play a crucial role in contributing greatly to productivity (Carranco Gudiño, 2017). According to the distribution of the number of companies by size, SMEs occupy second place in terms of participation after micro-enterprises, being 7.7% of the total number of companies. In terms of the distribution of jobs, they are in second place, followed by large companies, accounting for 34% of the total. However, the companies in question face similar challenges in terms of strategic planning and execution of plans.

This research seeks to fill a gap in knowledge by examining the relationship between the level of formality in the formulation of strategic plans, the barriers encountered during implementation, and the degree of execution of strategic plans in SMEs in the manufacturing sector in Quito. This study could provide valuable insights to improve strategic planning practices and strengthen the performance of SMEs in Ecuador and other similar contexts.

## Literature Review

Strategic planning is a practice widely recognized in the business world as an essential tool to guide the direction of an organization towards achieving its objectives and taking advantage of competitive

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<sup>1</sup> Facultad de Ciencias Administrativas y Contables, Pontificia Universidad Católica del Ecuador, Quito, Ecuador, Email: [pcadena@puce.edu.ec](mailto:pcadena@puce.edu.ec).

<sup>2</sup> Facultad de Ciencias Administrativas y Contables, Pontificia Universidad Católica del Ecuador, Quito, Ecuador, Email: [esuquillo@puce.edu.ec](mailto:esuquillo@puce.edu.ec).

<sup>3</sup> Facultad de Ciencias Administrativas y Contables, Pontificia Universidad Católica del Ecuador, Quito, Ecuador, Email: [ivervkovitch@puce.edu.ec](mailto:ivervkovitch@puce.edu.ec).

<sup>4</sup> Facultad de Ciencias Administrativas y Contables, Pontificia Universidad Católica del Ecuador, Quito, Ecuador, Email: [sebastianacosta@hotmail.com](mailto:sebastianacosta@hotmail.com).

opportunities (George, 2005). However, despite its importance, many companies face difficulties in the effective implementation of their strategic plans (Noble, 1999). The entire formulation effort is wasted, turning the preparation of the plan into an end in itself, thus losing its essence of being an instrument for organizational mobilization (Kovacevic & Reynoso, 2010).

The expression “strategic planning” is used to refer to a process of analytical and programmatic thinking (Heracleous, 1998); it consists of establishing objectives, strategies and policies that guide the organization towards the achievement of its vision (Pemberton, 2002).

Kovacevic & Reynoso (2010) note that the traditional strategic planning process starts with defining the mission and core values of the company; then an analysis of the external environment is carried out, which will allow the company's vision and core strategy to be defined; then a situational analysis, definition of specific strategic objectives, and goals to be achieved in the coming months are made. On the other hand, Kaplan & Norton (2005) suggest that, to formulate the strategy, the first step is to develop the mission, vision, corporate values, and to establish objectives; then, the internal and external environment in which the company coexists must be analyzed; and finally, continue with the execution and control of the strategy. Estrada et al., (2009) mention that the components linked to strategic planning include: mission, vision, goals, internal and external evaluation, strategy determination and control.

To develop the elements of strategic planning, a wide variety of techniques, tools, methods, models, frameworks, approaches and methodologies are available, which are called “strategic management tools” (Clark, 1997). The use of these tools is fundamental to create and develop the strategy. (Gunn & Williams, 2007) because they raise awareness of risk reduction in decision making, establishing priorities, and providing a framework for assessing the relevance of the various areas of business activity (Aldehayyat & Anchor, 2008). In addition, it enhances critical thinking, understanding of situations and provides a rigorous approach to problem solving (Webster et al., 1989).

Berisha Qehaja et al. (2017) mention that a variety of tools for strategic analysis are presented, specifying them as a guide for managers. Among the first authors to do this assessment and classification were Prescott & Grant (1988), who organized 21 competitive analysis techniques organized under 11 dimensions; Webster et al. (1989), who listed a total of 30 planning tools; and Clark (1997), who conducted the first empirical study linking the use of tools with specific strategic activities. Table 1 summarizes common planning techniques and tools, organized according to the stage at which they are used.

**Table 1.** Strategic Planning Tools

Stage	Tools
External assessment	PESTEL external audit Porter's Five Forces Framework External Factors Evaluation matrix, EFE Competitive Profile Matrix, CPM
Internal assessment	Internal audit Value Chain Analysis Internal Factor Evaluation matrix, IFE Resource-Based View, RBV
Strategy analysis and selection	Strengths, Weaknesses, Opportunities, Threats (SWOT) matrix Strategic Positioning and Action Evaluation (SPACE) matrix Boston Consulting Group (BCG) matrix Internal and External (IE) matrix Grand Strategy Matrix Quantitative Strategic Planning Matrix (QSPM)

Source: Clark (1997), David (2013), Kaplan & Norton (2005)

The analyzed literature mentions that the larger the company is, the greater the tendency to use numerous tools; for example, in 2014, large companies used an average of 8.1 tools; medium-sized companies used 7.6; compared to the small companies that used 5.3 tools (Berisha Qehaja et al., 2017). However, the study conducted by Cetindamar et al. (2012), concludes that there is no relationship between the number of strategic management tools used and the fact that the company achieves its profitability objective. On the other hand, Nouri & Soltani (2017), after analyzing 35 management tools and techniques, concluded that some of the tools have a positive impact, while others adversely affect performance.

The analyzed business literature presents two clearly differentiated perspectives regarding strategic planning; the first one supports the favorable influence on the company's performance as long as it is flexible (Noble, 1999), and has a rational and comprehensive approach (Khoshtaria, 2019). The second perspective argues that formal strategic planning bears no relationship to performance in SMEs (Gable & Topol, 1987; McKiernan & Morris, 1994). Or as French et al. (2004) state, it is a weak relationship since it was not associated with sales, profit, or performance growth results. Therefore, in relation to the formality of strategic planning, it proposes four levels, as shown in Table 2.

**Table 2.** Strategic Planning Levels

Planning level	Definition
No planning	They have no strategic plan
Informal planning	Plan is not documented
Formal planning	The strategic plan has been written
Sophisticated planning	A written strategic plan is in place and is used to integrate business plans, operational plans and daily activities. Business management based on its planning.

Source: French et al. (2004)

A well-formulated strategy can generate added value to the company only if it is successfully implemented. According to Kaplan & Norton (2005), companies fail to implement strategy because of a gap between the formulation of high-level strategic planning and execution by departments, processes and employees. They mention the following barriers as a result of their research: a) companies lack a formal system for executing the strategy; b) strategy formulation is not linked to the budget; c) no link between salary compensation and strategy; d) employees do not understand what the company's strategy is, which means that their daily activities do not support the achievement of the company's strategy; and, e) managers spend less than an hour per month or do not discuss strategy at all. Subsequent studies showed that there was a significant difference in success in closing the gaps, with companies that had implemented an explicit system for executing the strategy performing better.

Another author, Judson (1991), recognizes three main barriers: a) top management formulates strategic planning but does not take into account the reality of the company and the change it will bring to its processes, systems and people; b) information about the strategy is not clear, nor does it specify what is to be done, when, how, by whom, or with what resources; and, c) failure in implementation is caused by lack of control, lack of communication about strategic planning and lack of rewards.

Mankins & Steele (2005) talk about how to turn strategy into performance, explaining that "(...) it is difficult to distinguish whether the gap stems from poor planning, poor execution, both, or neither" (p.3). These authors identified the following obstacles: a) the strategy is neither concrete nor understood by the lower levels; b) strategic planning is nothing more than a negotiated agreement, a political process where the various levels lobby for their convenience, so that they underestimate the immediate performance and overestimate the long-term results of the business units; c) there is no common language between the corporation and the units; d) the allocation of resources is not considered in advance; e) priorities are not identified and are not translated into actions with their respective responsible parties, nor into programs and key performance indicators; f) resources are not monitored to readjust strategic planning; and, g) people's development is not encouraged.

Specifically for the case of SMEs, eight main barriers were identified, five categorized as external barriers and three as internal barriers (Ghobadian & Sims, 2004); see Table 3.

**Table 3.** Barriers to The Implementation of Strategic Planning in Smes

Internal barriers	External barriers
Inadequate communication	Crises distracted attention from implementation Unexpected external problems External factors affecting implementation
Implementing the strategy took longer than anticipated	
Shortfall in employees' skills	
Personnel do not sufficiently understand strategic objectives	
Coordination for implementation is not effective	

Source: (O'Reagan & Ghobadian, 2002)

Ismail et al. (2014) categorized the barriers faced by medium-sized companies in Kenya as internal and external; as internal identified: a) resistance to change; b) inappropriate systems (structure, culture, leadership); c) inadequate human and financial resources; d) poor communication about the strategy; e) lack of motivation for implementing the plan. Among the external barriers that these authors identify in relation to the company's operating environment are the following: a) new competitors in the industry; b) new products or unexpected substitute products, c) stakeholders, creditors and government.

Of the bibliographic references referred to, the most common among the authors have been taken into account, organizing them into internal and external barriers (Table 4).

**Table 4.** Overview of Barriers

Barriers	Component
Internal	Information related to the strategy is not communicated. Employees do not understand the strategy. Not linked to the budget. The required changes in the company's systems are not taken into account. Lack of motivation and salary compensation for employees. No monitoring of the strategy Personnel are not trained with the necessary skills to implement the strategy
External	Crisis and external issues Operational environment

Source: Kaplan & Norton (2005), Judson (1991), Mankins & Steele (2005), Nazemi et al. (2015), O'Regan & Ghobadian (2002), Ismail et al. (2014).

On the other hand, strategic planning in itself can be an obstacle. In some cases, it is inefficient because SMEs are not able to identify and overcome the barriers to its development, while in other situations it is non-existent (Belás et al., 2021). Wang et al. (2007) mention the following reasons why SMEs do not carry out their strategic planning: a) time constraints; b) lack of experience; c) inadequate knowledge of planning processes; d) reluctance to share strategic ideas with employees and others; e) environmental uncertainty; f) company size; g) industry sector; h) internal implementation barriers; i) business life cycle; j) developmental stage; and, k) business owner's motivation.

David et al. (2013) remark that companies make the following potential errors, among the most relevant ones, when preparing strategic planning: a) planning to obtain accreditations or regulations; b) failure to communicate to employees; c) the management level does not actively support strategic planning and is not involved in the planning process; d) delegating the development to a single person, or not involving key

people for the development; e) considering that planning is unnecessary or unimportant. In addition, the latter authors say that planning should not be so formal that it lacks flexibility and creativity.

Thompson et al. (2018) propose in more detail the elements that should be taken into account to overcome the barriers to implementation, and for the strategy formulated to be successful, listing below the main components of the strategic execution process:

Recruit capable managers and personnel

Form the required organizational capabilities

Create an organizational support structure.

Allocate sufficient budgetary (and other) resources for the execution of the project.

Institute policies and procedures to facilitate its execution.

Adopt best practices and business processes that drive continuous improvement in execution activities.

Install operating and information systems that enable the company's personnel to competently carry out strategic functions.

Link rewards and incentives directly to the achievement of strategic and financial objectives.

Instill a corporate culture that promotes good performance.

Exercise the internal leadership necessary to promote the execution of the strategy.

In summary, the literature review presented here provides a broad view of strategic planning, highlighting its importance, the processes involved, and the tools used in its formulation. It also explores common barriers that companies face during strategy implementation, both internally and externally. The need to overcome these barriers is emphasized and key elements for successful implementation, such as organizational culture, resource allocation and effective leadership, are proposed.

## **Materials and Methods**

### *Research Context and Sample*

For this research, the study developed by Wang et al. (2007) was taken as a reference, contemplating the following variables: percentage of strategic plan implementation level, respondent's position and years of employment; procedures and tools for formulating the strategic plan, factors that impede the formulation of plans; and the barriers that hinder the implementation of the strategic plan.

The companies in the sample were taken from the publicly available database of the Superintendency of Companies (Supercias, 2021). The sample includes 243 manufacturing SMEs belonging to the food, textile, apparel, chemical, pharmaceutical, rubber and plastic subsectors. The sample taken ensures a 95% confidence level with a 5% estimation error of the results obtained.

### *Instrument*

The survey design was based on the factors identified by Wang et al. (2007). The data collection instrument was previously validated by specialists and businessmen through a pilot test (See ANEXO 1).

The survey was applied between January and March 2022, addressed to managers, chiefs, coordinators and those responsible for carrying out the strategic plan in each of the companies sampled.

*Data Analysis*

The records were consolidated through the Microsoft Forms application, and the data were processed with SPSS software.

The level of complexity of the strategic planning was established based on the weighting of the following elements according to their importance:

**Table 5.** Variables Defining the Complexity Level

Factors	Weighting
Mission	5%
Vision	5%
Corporate values	5%
External analysis	5%
Internal analysis	5%
Strategic objectives	37.5%
Strategies	37.5%

The Execution level variable is a continuous variable that expresses the percentage of execution of the strategic plan declared by the companies; it should be noted that only 66 companies that have developed a strategic plan and whose execution is greater than 70% are considered for this hypothesis.

Four categories of tools applied for planning were identified. Weighting of the tools in each category was carried out considering the study conducted by Nouri (2017), and the weighting corresponds to the percentage of participation of the tools in each of the categories (See Table 6).

Therefore, in order to achieve the purpose of the research, the following hypotheses were established:

H1: The level of complexity and tools used affect the level of execution.

H2: Complexity level factors affect the level of execution.

H3: Implementation barriers are related to the low execution (less than 70%) of the strategic plan.

To test hypotheses H1 and H2, correlation matrices were constructed using Spearman's coefficient, which proposes a linear association through the order numbers of each group, and then compares the ranks obtained between the groups (Fernández Hurtado et al., 2019). To determine whether there is an association between the implementation barriers and the low level of execution stated in H3, the Chi-square test was performed.

**Table 6.** Tool Categories for Planning, Tools and Weighting

Categories	Tools	Weighting
Tools for external context analysis	PEST Analysis	25%
	Porter's Five Forces Framework	25%
	External Factors Evaluation matrix, EFE	25%
	Other	25%
	Internal company audit by functional areas	20%

Tools for internal context analysis	Resource-based view of the company	20%
	Value Chain Analysis	20%
	Internal Factor Evaluation matrix, IFE	20%
	Other	20%
Tools used for strategy formulation	SWOT matrix	20%
	Competitive Profile Matrix (CPM)	20%
	Boston Consulting Group (BCG) matrix	20%
	Quantitative Strategic Planning Matrix (QSPM)	20%
	Other	20%
Tools used for strategic planning progress control	Excel	33%
	Balanced Scorecard	33%
	Other	33%

## Results

The results in Table 7 show that the level of complexity correlates with the level of execution (Spearman coefficient = 0.4204 with a p-value = 0.004). In addition, the level of complexity is significantly correlated with the use of external (0.4297), internal (0.4385) and strategy formulation (0.4989) analysis tools within the plan.

For hypothesis H2, the results are reported in Table 8, where it is evident that the strategies are correlated (0.4304) with the level of execution. In addition, there is a correlation between mission, vision, and values, where the first two are strongly correlated (0.8591). The results also reflect that external analysis, internal analysis, strategic objectives and strategies are correlated with each other. Strong correlation between external analysis and internal analysis is observed (0.7233), as well as a moderate correlation between strategic objectives (0.3981) and strategy (0.349). Internal analysis correlates to strategic objectives (0.4573) and strategies (0.3212).

**Table 7.** Correlation Between Level of Execution, Level of Complexity and Deployed Tools

	Level of execution	Level of Complexity	External Analysis Tools	Internal Analysis Tools	Tools for strategy formulation
Level of execution	1				
Level of complexity	0.4204*	1			
External Analysis Tools	0.0669	0.4297*	1		
Internal Analysis Tools	0.1544	0.4385*	0.5801*	1	
Tools for strategy formulation	0.2173	0.4989*	0.5288*	0.3244*	1

NOTA: \* is for the p-value < 0.05

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**Table 8.** Correlation Between Level of Complexity (Disaggregated) And Level of Execution

	Execution level	Mission	Vision	Corporate Values	External Analysis	Internal Analysis	Strategic objectives	Strategies
Execution percentage	1							
Mission	0.1319	1						
Vision	0.1701	0.8591*	1					
Corporate values	0.0567	0.4406*	0.5129*	1				
External analysis	0.1942	0.193	0.1296	0.1244	1			
Internal analysis	0.2103	0.0552	0.1653	0.1859	0.7233*	1		
Strategic objectives	0.1968	0.184	0.3614*	0.1084	0.3981*	0.4573*	1	
Strategies	0.4304*	0.0999	0.159	0.2524*	0.3490*	0.3212*	0.2510*	1

NOTE: \* is for the p-value < 0,05

The results of the Chi-square test proposed for hypothesis 3 are reported in Table 9, where it can be seen that only external barriers to the company had an impact on the plan's implementation (p-value = 0,032).

**Table 9.** Relationship Between Implementation Barriers and Low Execution Level

Barriers to implementation	Chi-squared coefficient	Degrees of freedom	p-value
Inadequate communication	3.512	4	0.476
Inadequate time for meeting objectives	4.033	4	0.402
Underdeveloped competencies of the management team in charge of plan execution	1.443	4	0.837
Lack of understanding of objectives by the personnel implementing the plan	4.157	4	0.385
Ineffective coordination for plan implementation	3.66	4	0.454
Factors external to the company that affected the plan's implementation	10.543	4	0.032

NOTE: \* is for p-value < 0,05



## Discussion

The results show that in manufacturing SMEs in the Metropolitan District of Quito there is a moderate correlation between the level of complexity and the level of execution of the strategic plan. Clark (1997), David et. al. (2013) and Kaplan and Norton (2005) used the planning tools for external evaluation, internal evaluation, and strategy analysis and selection in a way that correlated with the level of execution of the strategic plan. This conclusion coincided with the results of this research.

The results of this research are also consistent with studies conducted by (Bracker, Keats, & Pearson, 1988), (Gibson & Cassar, 2005) and (Kraus, Harms, & Schwarz, 2006), who found that formal strategic planning has a positive impact on performance. However, these results are not in agreement with those found by Gable & Topol (1987), McKiernan & Morris (1994) and French et al. (2004).

Barriers referring to external factors affect the implementation of the plan, coinciding with O'Regan & Ghobadian (2002) and Ismail et al. (2014), who added external barriers as factors affecting the strategic plan's implementation.

This study identified that only external factors have a positive impact on the implementation of the strategic plan; no incidence of internal barriers was found in the SMEs studied, in contrast to the findings of Kaplan & Norton (2005), Judson (1991), Mankins & Steele (2005) and Nazemi & Asadi (2015); these authors found that the latter type of barriers do influence the execution of strategic planning.

Finally, the study contributes to the identification of the existing relationships between, on the one hand, the levels of execution of the strategic plans of SMEs in a relevant economic sector in Ecuador, and on the other hand, the best practices identified in the formulation and execution of these plans; these relationships are explained through the level of complexity in the design of the plans and the difficulties faced in their implementation.

## Authors' Contributions

All the authors collaborated in the elaboration of the data collection instrument and process. Paulina Cadena worked mainly in the Introduction, Literature Review and revised the whole paper in English Language. Edwin Suquillo, Irina Verkovitch and Sebastián Acosta worked mainly in the methodology, results, discussion, and conclusions.

## Author Ethical Declarations

We confirm that the work has not been published elsewhere in any form or language

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## Declaration of Interests

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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*Annex 1. Questionnaire Used in The Survey**Survey on Strategic Planning in Smes of The Quito And Rumiñahui Cantons**Dear Entrepreneurs:*

Receive a cordial greeting from the Faculty of Administrative and Accounting Sciences of the Pontifical Catholic University of Ecuador, which is conducting research aimed at identifying the barriers that hinder the implementation of strategic planning and its relationship with the level of formality in the formulation of strategic plans of SMEs in the Quito and Rumiñahui Cantons.

We request your collaboration by answering the following questions. The confidentiality of the information provided will be guaranteed, and it will be used exclusively for academic research purposes.

Thank you very much,

Research group in SMEs

*Fcac-Puce*

*I acknowledge that I understand the objective of this research; therefore, I agree to answer the following questionnaire.*

- General Information*

Company name: \_\_\_\_\_

Position of the person completing the survey: \_\_\_\_\_

Length of time working in the company (years) \_\_\_\_\_

- Strategic Planning*

Does the company have a strategic plan?

YES \_\_\_\_ NO \_\_\_\_\_

*(If The Answer Is No)*

Evaluate the influence of the following causes for NOT having a strategic plan.

Where 1: Not influential; and, 5: Very influential:

Factors:	1	2	3	4	5
1 Availability of time					
2 Experience of the directors					
3 Lack of a planning team					
4 Lack of knowledge of planning processes					
5 Reluctance to share plans with employees					
6 Changes in the external environment					
7 Size of the company (small or medium)					
8 Industrial activity					

9	Company life cycle (new or long-established company)					
10	Others: _____					

*(If The Answer Is Yes)*

Year of the last strategic plan: \_\_\_\_\_

Coverage period: From (year): \_\_\_\_\_ To (year): \_\_\_\_\_

Status of execution of the strategic plan:

Execution percentage: \_\_\_%

Not executed \_\_\_\_\_

*(If The Answer Is More Than 70% Executed)*

How was the strategic plan shared with the company's personnel?

• Printed \_\_\_\_\_

• Digital \_\_\_\_\_

• Verbal \_\_\_\_\_

• None \_\_\_\_\_

Indicate the elements included in the strategic plan:

• Mission

• Vision

• Corporate values

• External analysis (Macro environment, industry)

• Internal analysis (Organizational diagnosis)

• Strategic objectives

• Strategies

*(If you selected External Analysis)*

What techniques/tools did you use for analyzing the company's external context?

• PEST Analysis (Political, Economic, Social, Technological)

• Porter's 5 Forces Model (customers, competitors, new entrants, suppliers, substitute products)

• External Factor Evaluation Matrix OT (Opportunities and Threats)

• Others: \_\_\_\_\_

*(If you selected Internal Analysis)*

What techniques/tools did you use for analyzing the company's internal context?

• Internal audit by functional areas

• Resource-based view of the firm (tangible, intangible resources, organizational competencies)

• Value Chain (internal processes)

• Internal Factor Evaluation Matrix SW (Strengths and Weaknesses)

• Others: \_\_\_\_\_

*(If you selected Strategies)*

What techniques/tools did you use for formulating strategies?

• SWOT Matrix (Strengths, Weaknesses, Opportunities, and Threats)

• Competitive Profile Matrix (comparison among competitors)

• Boston Consulting Group BCG Matrix (positioning of strategic business units, products, or business lines)

- Quantitative Strategic Planning Matrix (selection among strategies)
- Others: \_\_\_\_\_

What techniques/tools did you use to monitor the progress of strategic planning?

- Balanced Scorecard (dashboard, indicators from various perspectives)
- Excel
- Others: \_\_\_\_\_

(If the answer is Not executed or executed less than 70%)

Evaluate the influence of the following factors on the implementation of the strategic plan.

Factors that hindered the implementation of strategic planning:	1	2	3	4	5
1 Inadequate communication					
2 Inappropriate timeline for achieving objectives					
3 Poorly developed competencies of the management team in charge of executing the plan					
4 Poorly developed competencies of the employees responsible for executing the plan					
5 Lack of understanding of the objectives by the personnel executing the plan					
6 Ineffective coordination for plan implementation					
7 External factors that affected plan implementation					
8 Others: _____					

Thank you for your collaboration.

Let me know if you need any adjustments!