Mexico: Strategic Planning In Small Businesses

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Who is responsible for the strategic planning in small businesses in Mexico? This study of six small firms led to ten propositions exploring that question. Generally, the owner/manager is responsible of such task.

A stream of research in several and different perspectives on small business has appear during the last two decades (Covin & Slevin, 1989; McGee & Rubach, 1997; Castrogiovanni, 1996; Lyles, et. al., 1993; Schwenk & Shrader, 1993; Deshpande & Flanagan, 1995, and Wasilczuk, 2000). In addition, during the last decades, the importance of strategic planning in the literature has been presented (Ramanujam, Venkatraman, & Camillus 1986; Ramanujam & Venkatraman, 1987; Pearce, Freeman, & Robinson, 1987). In addition, these two streams of research working together, that are strategic planning in small business (Schwenk & Shrader, 1993; Robinson & Pearce, 1983; Lyles, M., Baird, I., Kuratko, D.F. & Orris, J. 1993; Robinson, Pearce, Vozikis, & Mescon, 1984; Robinson, 1982). However, Can these theories be transferred to a developing country? Would the
theory work as in United States? We found a lack of research in this area. Thus, this study seeks to present some findings in a developing country, Mexico, and how strategic planning in Small Businesses is developed.

Since this study was the first of its kind, it was basically exploratory. It attempted to answer the following research questions: (1) How do small businesses owner/manager planning in Mexico? (2) Who is responsible of the strategic planning in small businesses in Mexico? The findings in this study might be of interest because there is not relevant literature with these conditions.

This article begins with a review of the literature on Small Businesses, and strategic planning. Then we tried to transfer the literature to a developing country, Mexico. We used a multiple case study. The results reported here are a set of propositions challenging sometimes the traditional view of strategic planning. For the purpose of this study, the setting is the service and trade industry. According to the annual report on small business and competition (SBA, 2000) “Small businesses are concentrated in the trade and service sectors that are growing most rapidly.”

**Backgrounds**

Small businesses are vast supporters of the U.S. economy, accounting for more than half of total employment during 80’s (Ward, 1987; Wheelen & Hunger,
1989; Schwenk & Shrader, 1993; Deshpande & Flanagan, 1995), and also during 90’s when gained almost 3.2 million jobs and real gross domestic product increased by 2.0 percent during 1995 (SBA, 2000). During the 1982-1995 period, the total number of firms with employees increased at a rate about equal to the rates of the growth of the general population and work force (SBA, 2000). Many firms in the United States are small businesses (Brown, Hamilton, & Medoff, 1990). Small Business Administration (SBA) defines small business as “a business smaller than a given size as measured by its employment, business receipts, or business assets. The SBA’s Office of Advocacy generally uses employment data as a basis for size comparisons, with firms having fewer than 100 or fewer than 500 employees defines as small.”

The impact of strategic planning theories, policies, researches and practices on firm performance have evolved considerably over the past decades (Ramanujam, Venkatraman, & Camillus 1986; Ramanujam & Venkatraman, 1987; Pearce, Freeman, & Robinson, 1987). Also regarding small businesses and strategic planning. Robinson and Pearce (1984) suggested that formal strategic planning have effect only in large firms. However, later Pearce, Freeman, & Robinson (1987) they conclude that empirical support in formal strategic planning has been inconsistent and sometimes contradictory. Later Schwenk & Shrader (1993) in a meta-analysis they conclude the case recommending the use of strategic planning in al firms.
We can observe the importance of small businesses and strategic planning. However, Can these theories be transferred to a developing country? According to Kim and Lim (1988) there are two contrasting views on the transferability. The first view supports the argument that such theories are not applicable to developing countries (Kiggundu, Jorgensen, and Hafsi, 1983). The second view suggests that some theories are transferable to developing countries (Kim, 1980). We found some articles related to Korea (Kim & Lim, 1988; Kuratko, 1993), Belize (Priem, Worrell, Walters & Coalter, 1995), Denmark and Sweden (Lee & Ackelsberg, 1993), Ireland, West and East Germany (Rauch, Frese, &Sonnentang, 2000; Buhner, Rasheed, & Rosenstein, 1997), Netherlands (Masurel & Janszen, 1998), Poland (Wasilczuk, 2000), and Canada (Wagar, 1998), but not in Mexico. Thus, we try to contribute in this area.

This article is organized around these three elements: (1) small business, (2) strategic planning, and (3) Mexico. Since this article is based in a Mexican market small business classification would be according to Secretaria de Comercio y Fomento Industrial (Diario Oficial, 1999) Table 1 describes that classification.

<table>
<thead>
<tr>
<th>Stratum</th>
<th>Manufacturing</th>
<th>Trade</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>0–30</td>
<td>0–5</td>
<td>0–20</td>
</tr>
<tr>
<td>Small</td>
<td>31–100</td>
<td>6–20</td>
<td>21–50</td>
</tr>
<tr>
<td>Medium</td>
<td>101–500</td>
<td>21–100</td>
<td>51–100</td>
</tr>
<tr>
<td>Large</td>
<td>501 or more</td>
<td>100 or more</td>
<td>100 or more</td>
</tr>
</tbody>
</table>

Adapted from Diario Oficial, 1999. Secretaria de Comercio y Fomento Industrial.
For the purpose of this study, we define strategic planning as Pearce, Freeman, & Robinson (1987) “the process of determining the mission, major objectives, strategies, and policies that govern the acquisition and allocation of resources to achieve organizational aims.”

The results reported here are a set of propositions of conducting strategic planning of Small Businesses in Mexico. The evidence suggests ten propositions.

Methods

The study used a multiple case design, each case served to confirm or disconfirm the inferences drawn from others (Yin, 1984). Table 2 describes the firms studied.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Number of Employees</th>
<th>Number of Informants</th>
<th>Year Founded</th>
<th>Managed by the Owner</th>
<th>Number of Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copies</td>
<td>37</td>
<td>2</td>
<td>1985</td>
<td>Yes</td>
<td>3</td>
</tr>
<tr>
<td>School</td>
<td>25</td>
<td>2</td>
<td>1943</td>
<td>Son</td>
<td>1</td>
</tr>
<tr>
<td>Restaurant</td>
<td>22</td>
<td>2</td>
<td>1995</td>
<td>Yes</td>
<td>1</td>
</tr>
<tr>
<td>Cake Shop</td>
<td>27</td>
<td>1</td>
<td>1978</td>
<td>Yes</td>
<td>1</td>
</tr>
<tr>
<td>Auto-Glass</td>
<td>37</td>
<td>1</td>
<td>1947</td>
<td>Son</td>
<td>4</td>
</tr>
<tr>
<td>Hotel</td>
<td>26</td>
<td>2</td>
<td>1972</td>
<td>Daughter</td>
<td>1</td>
</tr>
</tbody>
</table>
The names used to identify the firms studied are pseudonyms. Although each name represents the sector of the service industry in which are established and developed.

**Data Sources**

Interviews were conducted with every manager/owner of each firm. There were three data sources: (1) initial CEO (owner/general manager) semistructured interviews, (2) semistructured interviews with key personnel on strategic planning, and (3) secondary resources when possible.

**CEO (owner/general manager) interviews.** An entry interview using a semistructured format was conducted with the CEO (owner/general manager) of each firm. The interview began by asking the general manager to broadly describe the company. Then we asked him/her open-ended question about strategic planning. According to the answer in depth questioning was addressed.

**Interviews with any other manager (if applicable).** After the owner/general manager interview, semistructured interviews with any other manager suggested by owner/general manager were conducted. The interview consisted of 22 open-ended questions. The interviews were from 90 minutes to two hours long. The interview began by asking the also this manager open-ended question about strategic planning. According to the answer in depth questioning was addressed.
As proposed by Eisenhardt (1989) two investigators conducted each interview with one responsible for the interview and the other for taking notes. Also immediately after the interview the investigators cross-checked facts and impressions. Four rules were followed. The first was the “24-hour rule” required that detailed interview notes and impressions be completed within one day of the interview. A second rule was to include all data, regardless of their apparent importance at the time of the interview. A third rule was to ask for a second interview if new doubts emerge due to the interview. A fourth rule was to end the interview notes with recent impressions of each company.

Data were gathered from the key informant. See appendix A for spanish format semistructured questionnaire.

Secondary resources data. Informational observations on locations were made with the only purpose to corroborate information.

Data Analysis

The qualitative responses were combined using profiles. These profiles were build when characteristics were mentioned by more than one informant. For example, three managers recall a clear and specific recommendation from their parents. This characteristic “parental advice” was included as a profile, but other characteristics mentioned by only one person were dropped.
Once preliminary analyses had been developed from the respective profiles we combined them and induce propositions using methods for building theory from case studies (Glaser & Strauss, 1967; Weiss, 1994). After the development of these initial propositions, each case was revisited and sharpened to improve understanding of our initial attempted to answer our research questions: 1) How do small businesses owner/manager planning in Mexico? (2) Who is responsible of the strategic planning in small businesses in Mexico?

**Firm’s planning process and formal written documents**

Strategic planning literature is concerned with no planners to formal planners (Kudla, 1980; Robinson & Pearce, 1983). The data from these researches implies that planners are future oriented and that written documentation emanates from the planning process.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Examples:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copies</td>
<td>“We are just starting to planning our goals for next year. It’s not that we didn’t have plans before but we never write our goals. We started this process about three months ago. We (store managers and owner) get together every Friday to have lunch and we discuss our jobs.”</td>
</tr>
<tr>
<td>School</td>
<td>“We don’t have any goal, objective or mission statement. We never do that, but we do plan next year or next semester. We detect the future generations and we plan our groups, the demand for next year.”</td>
</tr>
</tbody>
</table>
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Restaurant  “We don’t plan too much the future just coming events such as “posadas” or special events Mother’s day, holidays and that kind of special days. Nevertheless, we try to keep track of our competitors and what are they doing.”

Cake Shop  “My plan is the same as the first day when I started, be the number one. However, we don’t have any written document telling me what to do. Everything is in my head and in my heart.”

Auto-Glass  “Yes, we do have a mission statement, and we plan different things from promotions for holidays or vacations to open a new store for next year. My father always told me to see in the future. For operational planning we have a computer software for planning.”

Hotel  “We establish goals for the future but we never write those goals. We only struggle to accomplish them.”

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**Proposition 1a:** Formal strategic planning is not common in small firms of Mexico, but it is applicable at some level.

**Proposition 1b:** Formal strategic planning is not a good indicator of performance or future development in small firms of Mexico, but it might be applicable at some level.

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**Follow Planning**

As Pearce, Freeman, & Robinson (1987) suggested distinguishing control and/or follow up the process of planning it is basic. What we could find about this important theme is reviewed in table 4
**TABLE 4**  
Follow up planning

<table>
<thead>
<tr>
<th>Firm</th>
<th>Examples:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copies</td>
<td>“We don’t have any specific following process for our planning, but hopefully our meetings would find a way to keep track of our own goals.”</td>
</tr>
<tr>
<td>School</td>
<td>“As I mentioned earlier our way of planning is knowing our future demand. After that, we plan our classes and teachers. We have been teaching for a long time and our reputation is very good.”</td>
</tr>
<tr>
<td>Restaurant</td>
<td>“We don’t have a specific process for doing that. However, as I said before we keep track of our competitors. I think there is enough customers for our kind of business.”</td>
</tr>
<tr>
<td>Cake Shop</td>
<td>“As I said before the plans are in my head. I know that we should be observing our competitors and every new cake. Also new products like vanilla, chocolate flavors or essences.”</td>
</tr>
<tr>
<td>Auto- Glass</td>
<td>“Most of our plans can be measured with our sales. Therefore, we keep track of our sales from previous years in the same period (month). Also with the help of the computer.”</td>
</tr>
<tr>
<td>Hotel</td>
<td>“We have to report our occupation to the Hotels Association every month that gave us a good idea how are we doing.”</td>
</tr>
</tbody>
</table>

We inferred the following:

**Proposition 2a:** Some Small Firms in Mexico don’t have an established process for measuring their goals and or planning.

**Proposition 2b:** Some Small Firms in Mexico don’t have an established process for measuring their goals and or planning but they do it at some level.

**SWOT**
Another relevant issue in the strategic planning is the mechanism of the classical SWOT (Ramanujam & Venkatraman, 1987). We found the following:

### TABLE 5

<table>
<thead>
<tr>
<th>Firm</th>
<th>Examples:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copies</td>
<td>“five years ago we started a process for detecting the strengths, weaknesses, opportunities, and threats. Unfortunately we didn’t follow up that process but we are starting again. Hopefully now will come with better results”</td>
</tr>
<tr>
<td>School</td>
<td>“Although we don’t use a method to determine that (SWOT), we are aware of our limitations. And we try to make the best decisions in any situation.”</td>
</tr>
<tr>
<td>Restaurant</td>
<td>“We try to focus on our customers. The behavior of them tells us what to do. For example when we started, we didn’t sell beer but customers ask for beer. Later we get the permit and new customers are coming.”</td>
</tr>
<tr>
<td>Cake Shop</td>
<td>“I used to observe my employees and my customers. I talk to them frequently, ask them how they felt about different things, what do they think about this or that.”</td>
</tr>
<tr>
<td>Auto-Glass</td>
<td>“We can say that I do the SWOT analysis. But now I’m thinking about get more people (employees) involved in that process, the thing is that I haven’t decide how.”</td>
</tr>
<tr>
<td>Hotel</td>
<td>“We can say that the SWOT analysis is made by The Asociacion de Hoteles y Moteles, (Hotel and Motel Association). We have meetings every month and we discuss issues important for all of us. We also participate in different activities the rest of the month.”</td>
</tr>
</tbody>
</table>

**Proposition 3a**: SWOT analyses in Small Firms in Mexico are not properly established but is made at some level.

**Proposition 3b**: SWOT analyses in Small Firms in Mexico are provided by different people such as customers, associations, and personnel. The important issue is how to perceive it objectively and methodically.
Competency in Small firms

Another theme relevant is the competitors and the environment (Covin, & Slevin, 1989; Kim, & Lim, 1988; McGee, & Rubach, 1997). We can perceive the intention to induce higher levels of performance.

TABLE 6
Competency and Environment

<table>
<thead>
<tr>
<th>Firm</th>
<th>Examples:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copies</td>
<td>“Although we have three stores and we are looked as number one it is very important to know what other firms are doing. If they introduce a new, kind of service, we evaluate if we can do it. If it is possible, we develop that service. In addition, another way to be ahead of the competency is knowing what our customer wants. My father who was also a business man, always insisted in a perfect service for the customers, I follow that pattern”</td>
</tr>
<tr>
<td>School</td>
<td>“We followed the governmental regulations, which are also followed by our competitors. We have a good reputation in our field so.”</td>
</tr>
<tr>
<td>Restaurant</td>
<td>“Our wages are higher than those established by labour regulations. We try to maintain our employees motivated with their jobs and a good salary is an easy way to do it. We keep track of our competitors and basically we monitor if they offer sales or specials.”</td>
</tr>
<tr>
<td>Cake Shop</td>
<td>“My wages are the highest of all market (bakery and patisserie). My personnel know that and are happy in my company. Along the years we have become in the number one, to keep that position is essential to know any new product (develop by our selves or the competitors) and how to get costs lower. Right now we have more capacity to produce than any other competitor and we use more quality products.”</td>
</tr>
<tr>
<td>Auto-Glass</td>
<td>“The competitors within this State are either my cousins or any of my brothers. We still observe what they do. But, the real “benchmarking” is with similar business out of the State when we get together every two months in an association (Windshield distributors association)”</td>
</tr>
</tbody>
</table>
TABLE 6 (continue)
Competency and Environment

Hotel  “The real competency is with ourselves. We try to be better everyday and provide a
good stay to our regular customers. We attend sales representatives from four
other states. We have customers from more than 25 years.”

Proposition 4a: Each different market in the service industry is well known
by the small firms owners/managers.

Proposition 4b: Owners/managers from Small Firms in Mexico get
information and support from different associations.

Other Topics of Interest

There were several interesting topics of Human Resource Management
such as demography and gender (Harrison, Price, & Bell, 1998).

TABLE 7
General Findings

<table>
<thead>
<tr>
<th>Firm</th>
<th>Number of Employees</th>
<th>Number of Females</th>
<th>Number of Males</th>
<th>Strategic Planning Activities by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copies</td>
<td>37</td>
<td>20</td>
<td>17</td>
<td>Owner and store manager</td>
</tr>
<tr>
<td>School</td>
<td>25</td>
<td>16</td>
<td>9</td>
<td>Owner and son</td>
</tr>
<tr>
<td>Restaurant</td>
<td>22</td>
<td>3</td>
<td>19</td>
<td>Owner and manager</td>
</tr>
<tr>
<td>Cake Shop</td>
<td>27</td>
<td>2</td>
<td>25</td>
<td>Owner only</td>
</tr>
<tr>
<td>Auto-Glass</td>
<td>37</td>
<td>3</td>
<td>34</td>
<td>Owner and store manager</td>
</tr>
<tr>
<td>Hotel</td>
<td>26</td>
<td>15</td>
<td>11</td>
<td>Manager (daughter)</td>
</tr>
</tbody>
</table>

Acapulco Guerrero, México

Ponencia arbitrada clave: 69-ENO-IRR
**Proposition 5a:** Small Businesses in Mexico are managed principally by the owners.

**Proposition 5b:** Some sectors of the service industry are dominated by males and others by females without a clear pattern.

**Conclusions, limitations and implications for future research**

This article began by describing some findings in Small Businesses in Mexico specifically around strategic planning. The results fail to support some of the previous literature. Rather, the findings here suggest that more studies on the topic are needed. We can conclude that strategic management in small businesses in Mexico as other areas is managed by the owners. The owner/manager in small businesses in Mexico is responsible of the strategic planning.

We are aware of some limitations during the present study. First, the firms under study belong to only one State, Chihuahua, where none previous studies has ever been reported. Second, the firms studied are from different sectors. Although these firms are in the service industry and they fit in the category proposed by the Mexican regulations as Small Firms. Third, as we mentioned earlier since this study was the first of its kind, it was basically exploratory and more studies are needed. Empirical and/or archival are strongly suggested.
References


