



## Impact of Strategic Management Practices on the Business Performance of SMEs in Pakistan



Muhammad Ishtiaq \*

Muhammad Shahid Tufail †

Anjum Hussain ‡

**Abstract** *Small and Medium Enterprises (SMEs) in Pakistan are playing a significant role in the economic development, and performance of these SMEs is very crucial to the country. Therefore, the aim of current research is to check the significance of strategic management practices in the SMEs operating in the South Panjab of Pakistan. Three variables were created from the existing literature (strategy development, strategy implementation, and strategy evaluation). Convenient sampling has been used to collect primary data through self-administrative questionnaires. By exercising different Inferential Statistical Techniques, this paper has found a significant link between all the strategic management functions and business performance of selected SMEs in the South Punjab of Pakistan. For this purpose, IBM SPSS Statistics software has been applied. This research has recommended that owners as well as management of SMEs should regularly evaluate and take corrective measures on schedule and the progress of various strategies.*

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### Introduction

SMEs are strengthening to progress in a number of ways; the production of jobs to expand the workforce, providing much-needed adaptability and economic creativity, boosting exports, and contributing to an improvement in GDP value addition. The government has assessed that more knowledge and practical measures are needed to make full use of the potential of the SME industry and lead it to a growth

progression. For this reason, the central bank of Pakistan has asked its scheduled banks to formulate an effective plan of action for the growth of SMEs in Pakistan ([Ali Qalati et al., 2021](#)). This is the result of SBP's implication that strong institutions are a requirement for a productive SME industry that also includes a stable industry system that could deliver the support needed to make it simple for SMEs to attain economic

\* Assistant Professor, Lyallpur Business School, Government College University, Faisalabad, Punjab, Pakistan. Email: [mishiaq@gcuf.edu.pk](mailto:mishtiaq@gcuf.edu.pk)

† Professor, UE Business School, Division of Management and Administrative Sciences, University of Education, Lahore, Punjab, Pakistan.

‡ MS Scholar, Lyallpur Business School, Government College University, Faisalabad, Punjab, Pakistan.

comfort and efficiency. A stable SME industry will also smooth the process of inherent, reducing the long-term need for costly imports and boosting the economy ([Forth & Bryson, 2019](#)). In addition, SBP has also set a goal to increase SME's financial inclusion by 2020 to allow the industry to experience substantial progress and advancement ([Dar, Ahmed & Raziq, 2017](#)).

It is not the first time that the SME sector has caught more attention from the government, as in the previous regime, it was very much there ([Ali Qalati et al., 2021](#)). Yes, it is an integral part of the 2025 dream. Experts stressed SME as a game-changer for the country's economic uplift. It can alleviate poverty and create jobs. During this time, however, the absence of a quantum leap in our SME sector is a testament to the fact that SME growth has remained more rhetorical than a key element of an economic reform agenda ([Khalique, Shaari, & Abdul, 2011](#)). The arrival of global tech-based market players such as Uber, Careem, Foodpanda, Daraz, and Amazon has also made the business environment of different SMEs more competitive in the developing world.

However, better strategic management practices offer new tools for small firms to succeed, expand and retain the competitive advantage of sustainable development ([Ali & Qun, 2019](#)). Strategic planning is being used in protecting future market hazards in securing the future of vulnerable sectors of industry in the form of small and medium enterprises. [Agwu \(2018\)](#) suggests that SMEs are helped to look forward to these circumstances and be skeptical. He further states that SMEs are engaging in the strategic formulation have witnessed more growth in sales, high capital returns, better profitability margins, superior growth of staff, global business enhancement, and there are few chances of failure in the business arena ([Omsa, Ridwan & Jayadi, 2017](#)).

Organizational structure is offered by strategic planning that enables a firm to benefit from market advantages and increased market performance ([Agwu, 2018](#)). Management and ownership must help SMEs to thrive and maintain their businesses to follow greater strategic management practices ([Gure & Karugu, 2018](#)).

Strategic management includes designing a strategic mission, goal setting, evaluating the situation, designing a strategy, applying the strategy, and evaluating it. The system is complex and continuous; single component change can require a alter the overall process ([Forth & Bryson, 2019](#)). Strategy design includes consideration of financial, cultural, political, technical, ecological, and industrial environmental factors, including barriers to entry, market competition, alternative availability, and buyer and supplier bargaining power ([Ali & Qun, 2019](#)). Implementing strategy in practice is about ensuring that identified strategies are actually implemented by designing impactful strategies organizational structure to promote good performance, resource policies in the different plus extents and organizing change ([Orser, Hogarth-Scott & Riding, 2000](#)).

As theoretical and empirical evidence shows, Strategic management practices introduced by a business have an impact on performance. Strategic management practices have improved strategic productivity and strategic positioning on a variety of political and societal issues. Firms can improve their market share substantially by enhancing their revenue statement and increasing their customer base by effectively implementing strategic management practices ([Ali & Qun, 2019](#)). However, there is limited research work available in the Pakistani context to explore fully the relationship of different SME management practices and business performance. Therefore, it is a valuable

addition to the current body of literature having a focus on the effectiveness of strategic management practices in SMEs. For this purpose, this study has the following objectives:

- To explore the effectiveness of strategy formulation in selected SMEs.
- To examine the effectiveness of strategy implementation in selected SMEs.
- To analyze the effectiveness of strategy evaluation in selected SMEs.

The current research intends to support various audiences, including executives and entrepreneurs from small and medium-sized businesses, the Government of Pakistan, and research scholars. The current study intends to help the owners and management in formulating better approaches to deal with the different internal as well as external challenges and sustainable growth for the business resulting in a positive impact on the whole economy.

## **Literature Review**

SMEs are non-auxiliary, autonomous business units that employ less than 250 people in Pakistan or have revenue of up to and about Rs.250 million per year and paid-up assets of up to Rs.25 million. SBP defines SMEs as any business concern in the specific fiscal year engaged in the manufacture, trade, or service of current net revenue of three hundred million rupees. Certain companies have an aggregate capital of one hundred million rupees with a minimum of fifty employees with aggregate assets worth Fifty million rupees or less, not including land and buildings. In Pakistan, there was no formal and consistent concept of small and medium-sized industries, which allowed SMEs to grow and thrive ([Bilal et al., 2020](#)). Pakistan's government and political regimes have not defined a

unified definition for SME's. A harmonized concept that takes account of the micro, small, medium, and large enterprises can help to establish a sound SME growth process ([Ahmad & Ahmad, 2021](#)).

Therefore, bearing in mind that the proposed definition is understood below as a practitioner and academic who is expected to benefit the economy of Pakistan and is also recognized internationally. The idea of a small business is an autonomous and controlled enterprise, limited in size and revenue depending on the market. An illustration of a small business is a small bakery with ten employees. In the nation's economy, SMEs play an important role. Their position is very critical in terms of production, job creation, export contribution, and promoting a fair distribution of income. This business strategy targets the resources of an organization to join or expand into a small market or business market ([Agwu & Emeti, 2014](#)). Typically, where the organization knows the customers and has goods that suit its needs, a focused approach is used. The emphasis approach is one of three general advertising techniques. See the strategy for differentiation and the two other low-cost strategies.

The aim and strategy for the market include market differentiation and targeting one or more customer classes or corporate customers. Successful businesses have strategic advantages in achieving high-performance levels. By distinguishing themselves from their competitors or from the main market segments on which their efforts are concentrated, they can gain market shares in general ([Allen & Helms, 2006](#)). The objective approach determines where the company can compete effectively in market segments. To focus on the firm's resources, the approach combines the properties of products with a competitive

advantage for the company, which will probably lead to more sales, profits, and revenues. The low production cost is a significant market advantage but does not extend to all sectors. The goal is to divide the industry into price and cost-sensitive markets.

Strategy can be categorized as a lasting approach to achieving corporate objectives ([Beaver & Prince, 2004](#)). It exists as the design or strategy that participate in the core purposes, objectives, and scheme of action of a single group in its totality ([Schraeder, 2002](#)). Strategy is also described as an action plan detailing how a firm can achieve its continuing goal. Continuous, forward-looking, detailed, systematic, and primarily linked management level which describes the traditions of your organization is strategic management. According to [Avram & Kühne \(2008\)](#), it is a continuous procedure that identifies and monitors the business and markets where the enterprise is indulged, analyses its rivals, and sets objectives and priorities to resolve recent and future challenges.

[Wang, Walker & Redmond \(2007\)](#) have mentioned that the strategy examines each year again to see whether it has been implemented and whether the new strategy to change circumstances, new technologies, new competition, new business conditions, or the new social, economic, or organizational framework has changed or has to be replaced. It examines each strategy annually. Whether SMEs execute strategic management defines the strategic management practices of the business. Managers have started to consider that an organization is efficient when it is using a minimum of resources (efficiency) to achieve its objectives (effectiveness) ([Wang, Walker & Redmond \(2007\)](#)). Therefore, some specific organizational principles endorsed an organization's concept of achieving its performance targets are based on resource constraints

([Beaver & Prince, 2004](#)).

[Ali & Qun \(2019\)](#) have described the perceived firm performance as the successes of a firm in relation to some of the standards. We consider perceived production quality such as quantified targets or profitability. The quality of the firm is characterized as actions and also results. The definition includes the attainment of desired objectives and the setting and evaluation of objectives. However, the underlying idea for this research is to explore this engagement, given because if the management behavior is correct, expected performance rates (success) and vice versa will be achieved. Progress and failure are considered the two sides of the series of successes ([Gure & Karugu, 2018](#)). Organizational perceived performance involves an organization's actual output or output calculated against its expected yields ([Forth & Bryson, 2019](#)). While the interpretations can vary among the researchers, they agree that the company's perceived achievement is to produce superior performance and/or goals. There exist different levels of organizational success, including profitability, market efficiency, and organizational effectiveness, though neither was later referred to as perceived firm performance ([Ali Qalati et al., 2021](#)).

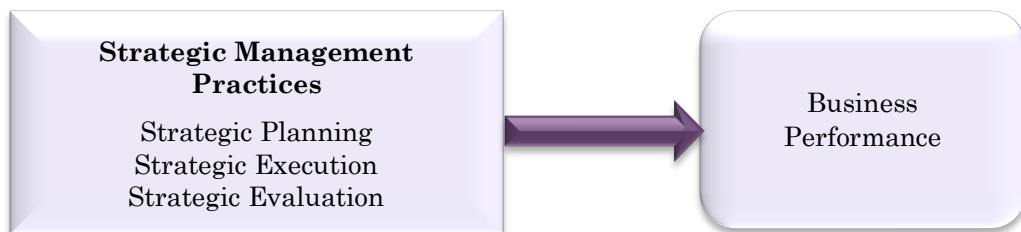
The business manager or owner's center of the thought is overall better strategy adherence to have better resource allocation and performance. The firms' actual performance varies depending on the effectiveness of the management of the three layers, such as top, middle, and bottom level management ([Kitching, 2000](#)). Comprehensive success provides important feedback for check and balance, enhancing, maximizing efficiency, rewarding, disciplinary, and a corporate objective alignment system. Some of the structures recommended by several academics to achieve company performance are profitability, efficiency,

balance sheets, economic value-added, activity-based evaluation, and customer satisfaction ([Khan, Tufail & Ali, 2021](#)). When assessing the performance metrics and ranking of SMEs, they use only financial indicators that include profitability, liquidity, and capital return, and debt level ([Sensini & Vazquez, 2021](#)). Nevertheless, the performance of the firm can be measured through different ways, such as financial indicators, market penetration, customer satisfaction, operational quality, employees' motivation, and commitment ([Selvam et al., 2016](#)).

[Karadag \(2015\)](#) has conducted a study on different issues of financial management in Turkish SMEs based on a strategic management approach. He has highlighted that the effective use of the acquired financial resources, including an efficient cash management system, has valuable importance for the long-term survival and growth of selected SMEs. He has analyzed some important practices of strategic financial management practices regarding financial planning, asset management, financial reporting, and control. Furthermore, his study also examined to what extent the implementation of these practices helps to better performance results. [Ali & Qun \(2019\)](#) has examined the impact of strategic management practices on the performance of Bangladeshi SMEs. They have taken data regarding different strategic management functions and have found a significant relationship with the performance of selected small and medium

business units in Bangladesh. Their research has suggested that the adoption of a strategic management process is very important for business success, and top-level as well as lower-level management should be part of the entire process for the long-term success of the business firms.

[Agwu \(2018\)](#) has investigated the impact of strategic management practices on the business performances of SMEs in Nigeria, and for this purpose, he collected primary data through questionnaires from the owners of SMEs in Nigeria. His research has tested the study hypotheses by applying different Statistical methods and procedures. A significant connection between strategic management practices and firm performance has been identified. Earlier to it, ([Omsa, Ridwan & Jayadi, 2017](#)) have examined the effectiveness of strategic management practices in Indonesian SME firms. Their study has undertaken quantitative research with primary data analysis. They have identified that strategic management practices such as strategic planning, strategic execution, and strategic evaluation have a significant positive impact on different profitability indicators. Similarly, ([Gure & Karugu, 2018](#)) have also conducted a study on the relationship between strategic management practices and the performance of SMEs in Kenya. They have collected primary data with the help of a semi-structured questionnaire and have found a significant relationship between independent and dependent variables.



**Figure 1:** Theoretical Framework

The research has established several hypotheses based on previous literature. The below are the study's hypotheses:

- H1:** A relationship exists between the formulation of strategy and the output of SMEs.
- H2:** A relationship exists between the execution of the strategy and the quality of SMEs.
- H3:** A relationship exists between the assessment strategy and the performance of SMEs.

## Research Methodology

The study population has been made up of all SMEs in Pakistan's South Punjab region. Southern Punjab is the area where most of the Saraiki speakers are found in the western and southern areas of Punjab. The geographical range generally includes the divisions of Bahawalpur, Dera Ghazi Khan, Multan and Sargodha (all in the province of Punjab), Dera Ismail Khan (in Khyber Pakhtunkhwa), and Jhang (also in Punjab). The southern Punjab province will consist of three divisions, Multan, Bahawalpur, Dera Ghazi Khan, which will cover 22 districts from a total of Punjab districts. Southern Punjab with a geographical range of over 52 percent of the total area of the province with a population of 32 million, which is much smaller than the rest of Punjab. Official consensus statistics for 2017 count the population of Punjab at 110 million, 32% of whom live in southern Punjab. In this case, we use a convenient sampling technique because of the dispersed and complex nature of our results. In South Punjab, small and medium-sized companies spread from South to North Punjab. The questionnaire was distributed to 400 different business enterprises by adopting self-delivery and collection methods. And we got the answer from the 326 business units. All the items of study variables in the research

questionnaire have been adopted from the available relevant literature ([Omsa, Ridwan & Jayadi, 2017](#); [Agwu, 2018](#); [Gure & Karugu, 2018](#); [Ali & Qun, 2019](#)). Considering the understanding level of target respondents, the questionnaire was into the Urdu language from English through the National University of Modern Languages (NUML) Faisalabad campus.

This research has undertaken the Pearson correlation (r) analysis to determine the correlation coefficient between the different variables ([Fidell and Tabachnick, 2007](#)). The current research has applied the OLS technique to measure the significance of the relationship of dependent and independent variables. In this study, OLS technology was used because it is a well-accepted method and is often used in relevant research ([Omsa, Ridwan & Jayadi, 2017](#); [Agwu, 2018](#); [Gure & Karugu, 2018](#); [Ali & Qun, 2019](#)). It is important to mention here that even the assumptions of reliability and multiple linearities, based on data analysis and classification, are successfully considered in this regard. "Calculation or theory precision relates to reliability" ([Bell and Bryman, 2011, p.158](#)). The aim of verifying reliability is defined by Cooper and Schindler (2011) as limiting the potential for biased results. Measurement accuracy is checked using an internal quality statistical method that is the alpha of Cronbach ([Gujarati, Porter & Gunasekar, 2012](#)). Internal consistency includes correlating the input in the instrument (questionnaire) with each other to questions (scale items). "Either a question subgroup or all the questions in your questionnaire check the reliability of the answers" ([Saunders, Lewis & Thornhill, 2007, p.430](#)). Statistical set for Social Sciences (SPSS 20.0) has been applied for data analysis and results.

## Results Analysis and Discussion

The study focused on SMEs in the South Punjab region of Pakistan. The questionnaires were distributed, and follow-ups were done through phone calls. The respondents had a thorough explanation of the value of learning and using the information obtained. This

ensured 81.5 percent of the highest response rate. The 50% response rate, 60% good, and above 70% very good, is sufficient ([Saunders, Lewis & Thornhill, 2007](#)). The feedback rate of 81.5 in each hundred is reflected very well for this study, and the study, therefore, proceeded with data analysis.

**Table 1.** Demographical Characteristics of Questionnaire Respondents

<b>Demographics</b>	<b>Respondents</b>	<b>Percentage</b>
<b>Gender</b>		
Male	296	90.8
Female	30	9.2
<b>Firm Age (Years)</b>		
Five years or less	168	51.5
6 to 10 years	119	36.5
10 to 20 years	36	11.0
More than 21 years	3	.9
<b>Education</b>		
Intermediate or less	119	36.5
Undergraduate	149	45.7
Postgraduate	50	15.3
PhD	8	2.5
<b>Business Nature</b>		
Manufacturing	44	13.5
Service	107	32.8
Trading	175	53.7
<b>Number of Employees</b>		
UP to 50	185	56.7
51 to 100	114	35.0
101 or more	27	8.3

Table 1 provides a summary of demographic features is given, such as race, company age, entrepreneur education, business nature, and a number of SME employees. Most males have responded in the given study. The firm range of age of the SMEs varies mostly from 05 years to 51.5 percent. The second major group in this category lies between 05 to 10 years which accounts for 36.5 percent. Most of the respondents are male, which 90.8 percent of the total population is. While the female group accounts for 9.8 percent of respondents. Around 05 to 10

years, the second major community in this class is 36.5 million. Most of the respondents were male, 90.8% of the total population. While the group of women accounts for 9.8% of respondents.

The firm's manager's level of education varies from intermediate to Ph.D. The level of the undergraduate is 45.7 percent. While the intermediate level is 36.5%. The study area under consideration in Punjab and Pakistan is backward. There is a lack of this sector in the industry. The SME sector in the area is therefore mainly a commercial concern, accounting for 53

percent, while the second largest group is the service industry, which is approximately 33 percent. As previously stated, this area is lacking in industry, and therefore the number of employees in larger firms ranges from 0 to 50, representing a maximum of 56.7%, while the second group with a maximum of 50 to 100 employees represents 35.0% and the remaining respondents are larger than 100 employees, representing 8.3% of the total respondents.

### Reliability Analysis

Analysis of reliability provides details about the relationship between the given objects in scale and their internal consistency. This work practices alpha

coefficient, called after the name of Cronbach's, reliability is measured by alpha to access performance. If the alpha value is less than 0.60, then it is regarded as unsatisfactory, while the value is more than 0.60 for reliability and the alpha value is better than 0.80 (Gujarati, Porter & Gunasekar, 2012).

If the Cronbach alpha value is lower or the coefficient of reliability is closer to 1.0, the reliability of the products to be evaluated will be high. According to Table 2, all the results from the reliability study indicate a range between—741 and .857 in this research. The variables indicate appropriate values as shown in the table. The Cronbach alpha value is greater than 0.6. These results show good reliability.

**Table 2.** Reliability Analysis

S.No	Variable	Cronbach's Alpha	Number of Items
1	Firm Performance	.857	05
2	Strategy Formulation	.741	12
3	Strategy Implementation	.761	7
4	Strategy Evaluation	.743	11

### Correlation and Regression Analyses

The study conducted correlation and

regression analysis to assess the relationship between study variables.

**Table 3.** Results of Correlations Analysis

Variable	Prf	SF	SI	SE
Prf	1			
SF	.493**	1		
SI	.418**	.362**	1	
SE	.333**	.067	.320**	1

*N* = 326

\*\* 0.01 level of significance, \* 0.05 level of significance

Variables Keys:

SF = Strategy Formulation, SI = Strategy Implementation, SE = Strategy Evaluation

Prf = Business Performance

Talking about the association between study variables has been shown in Table 3, and the Pearson correlation coefficient (r) has been employed in this research.

Correlation coefficients of the Business Performance with all other study

variables indicate a direct connection. The above results show that every value of the correlation (r) coefficient between study variables is less than 0.333 and suggests there are no multi-linearity issues in the data.

In this study, the standard OLS technique has been applied to check the importance of the interrelationships between dependent and independent variables. This regression analysis has been undertaken to test the study

hypothesis. Following multiple regression model has been developed to determine the relationship between the variables.

$$\text{Business\_Performance} = f(\text{Strategy Formulation, Strategy Implementation, Strategy Evaluation})$$

**Table 4.** Regression Analysis

Independent Variables	Standardized Beta (B)	Standard Error (e)	t	Significance (P)
		.290	1.898	.059
SF	.407	.053	7.633	.000***
SI	.193	.067	3.439	.001***
SE	.244	.046	4.658	.000***

Dependent Variable: Business Performance

$R^2 = .602$ ,  $F \text{ value} = 49.156$ ,  $(P = .000)$ .  $N = 326$ .

Acceptance Level: \*\*\* 0.01 level of significance \*\* 0.05 level of significance

Variables Keys:

SF = Strategy Formulation, SI = Strategy Implementation, SE = Strategy Evaluation

The results of the OLS regression study are shown in Table 4

The findings of the regression analysis indicate that all independent variables are strongly connected to performance, and each independent variable has a specific link below. Also, the VIF values are also within the normal range. There are also no multiple linearity problems in the data, as shown by the results.

The relationship between Strategy Formulation and Business Performance of SMEs in South Punjab, Pakistan is examined in the first hypothesis. Using multiple regression analysis, this relationship has been checked. As per the findings, in selected South Punjab of Pakistani SMEs, a significant positive impact of Str From ( $\beta = .403$ ,  $p = .000$ ) was identified on the Business Performance. Furthermore, the Pearson correlation study also supported these results and showed that both variables have a positive association. Thus, it can be concluded that SME management strategic practices for Strategy Formulation have a major influence on Business Performance. All

such findings show that various Strategy Formulation practices are recognized as a key feature of firm success in Pakistani SMEs in South Punjab and should be given special considerations.

The current study has developed a second hypothesis in order to examine the connection between Strategy Implementation and Business Performance among SMEs in southern Punjab in Pakistan. Multiple regression analysis has verified this relationship. According to these results, Strategy Implementation ( $\beta = 0.229$ ,  $p = .001$ ) in selected firms in south Punjab in Southern Pakistani SMEs, are noted to have a significant positive impact. Correlation analyses have also reported a positive association between Strategy Implementation and Business Performance. Therefore, it can be concluded that the Business Performance is significantly influenced by Strategy Implementation in the SME sector. This discovery also shows that the different strategic management approaches have been recognized as the key feature of the

great success in southern Punjab for Pakistani SMEs.

The third hypothesis is about to test the relationship of SMEs in South Punjab of Pakistan between Strategy Evaluation and Business Performance. According to the results, a positive effect of Strategy Evaluation has been identified ( $\beta = 0.214$ ,  $p = 0.000$ ) on Business Performance in selected South Punjab of Pakistani SMEs. Therefore, it can be revealed that the Strategy Evaluation is an important aspect and has a substantial influence on SME Business Performance. These results also demonstrate that the SMEs management should focus more on various Strategy Evaluation practices to improve the Business Performance for more growth and success.

### **Conclusion**

The findings of this study have indicated that the business performance of SME Enterprises is significantly influenced by strategic management practices, and effective strategy formulation, implementation, and evaluation bring superior performance in the business units. Therefore, improved strategic management proves a valuable tool for business endurance and plays an important role in growth and success. The current has also confirmed that the management should pay more attention to the strategy formulation, implementation,

and evaluation to enhance the performance of small and medium-sized enterprises in Pakistan. The results of the current study are important to boost the efficiency and relative position of SMEs by implementing strategic management techniques. Firms that are adopting strategic management practices and sustaining these practices over a longer period are becoming financially sound by enjoying a competitive advantage over others and increasing their market share and customer base.

The current study has great importance for the owner, management, and other stakeholders to improve the performance of their business. The government should demand a written draft of strategic management practices, which will be adopted in due course of SMEs business. This research has also recommended that owners as well as management of SMEs should regularly evaluate and take corrective measures on schedule and the progress of various strategies.

The current research mainly focused on South Punjab SMEs, and all the other SMEs of different regions of Pakistan are excluded. Furthermore, time and money were the main issues for data collection; therefore, convenient sampling has been used. There is a potential opportunity for future research that the similar can be repeated by including more regions of Pakistan to get a more hostile view of the said phenomena.

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