

Effect of financial planning control performance



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Micro, small and medium term enterprises are the engine of the European Union. They are essential source for jobs innovation and, entrepreneurial spirit in the EU. The category of micro, small and medium sized enterprises (SMEs) is that category of enterprises which employ lesser than 250 people and have the turnover of less than 250 million and annual balance sheet total not exceeding 43 million Euros. [URL2]

In 2004, the department of trade and industry estimated that 4.3 million business enterprises in the UK and in that 99 % are small to medium sized enterprises(SMEs) . As The beginning of 2004 Small Medium Enterprises accounted for more than half (58%) of all the UK employment and more than (51.3 of the UK's estimated business turnover of 2400 billion . gem , 2004) . And the rate of starting new business in the UK has increased from 7.8 to 9.5 in year 2002 to 2004 . Now it has been widely accepted that SMEs are playing important role in generating the employment and regenerating of the UK economy[URL3]. Coventry has long history of industries, dating back from 1896; earlier it was centre point of car and cycle manufacturing. But now a day's manufacturing industry declining in whole Britain, the big names like Peugeot, jaguar and famous London black cab (LTI) is now the only vehicle still built in Coventry. For the last few years Coventry city is moving away from manufacturing industries to finance, research, design and development, creative industries, business services, food and retail, etc. And it is providing good opportunities for new entrepreneurs. To consider this Coventry University has introduced new courses and seminars for their students. This research would seek to explore the financial planning and financial control, and their aspects on the performance of SMEs in Coventry

UK. Usually financial planning of any business means budgeting process which includes to estimate and calculate all revenue and expenses over certain period of time (At rill and McLane, 2006) for small and medium business owners that budgeting is just a waste of time and it sounds very boring . they use as a competitive advantage to save time and money . While on the other hand some firms owners think that budgeting if the best way to keep your finances on track and avoid getting into debts. It is not an individual decision as it also depends upon the structure.

CHAPTER 2 FINANCIAL PLANNING AND CONTROL

Financial control is a procedure which sustained primary through budgetary control procedure. It includes managing budgeted, financial meetings, using variance to revive budget, variances are very common term use for financial control; it is the difference between the actual and budgeted income and expenses. If the organisation actual expenses is less than the budgeted expenses the it's called positive variance and in the other case if there budgeted expense is less than the actual expenses it's called negative variances. Financial control is completely depending on the use of variances, some companies do monthly variances analysis and some use many variances. Budget variance is an important measure of the anticipated cost of the whole business. [4]

The main purpose of this research would be to identify the extend of financial planning, to do so firms are grouped according to the extent of their budgeting process;

First group: the firm in this group use very comprehensive budgeting process. The firm in this categories use variances regularly for many different items to manage their operating activities . This category is also reclassified into subcategories

Second group: The firm in this group use very simple budget but represent less comprehensive planning process. The firms in these categories occasionally use variance but for very specific items to measure suitable corrective actions . This group is again reclassified according to the use of their variances

Third group: The firm in this group don't use any written plan or budget. Because the firms in this categories do not use any type of written budget, they don't calculate variance, means the difference between actual performance and budgeted performance. [2]

Financial performance of any firm can be access by sales growth and its return on investment (ROI). But it is very complex to get hold of the exact sales and investment information from the small and medium size firm, and also considering the inherent unwillingness of owner to disclose the sales and return on its investments information. [3]

This research and study would be based on personal questionnaires surveys which involved nearly 200 SMEs from Coventry are. Fifteen sectors were investigated that is fishing and forestry , manufacturing , health and social care services, IT and Telecommunication services , Manufacturing, Media and creative services , Mining , energy and utilities , Agriculture, Arts, sports and recreation, mining , energy and utilities , personal services, professional and <https://assignbuster.com/effect-of-financial-planning-control-performance/>

business services, Retail, hire and repair, whole sale and transport and distributions . This survey would exclude any firm , companies or organisation that are part of any franchises system as franchise companies follow strict financial rules.

CHAPTER 3 RESEARCH METHODS AND FINANCIAL ISSUES

This research summarizes recent empirical evidence that SMES frequently have implications in obtaining capitals or credit and mostly in the start up phase due to lack of resources may also reduce to innovations and new technology. Financial and legal plays an important role in easing the constraint. The advanced financing instrument can ease SMES access to finance even in the absence of well developed institutions. In many economies Small medium enterprises are much greater in number . In the European union of 25 countries 23 millions SMEs employs around 75 million jobs and its account for 40 to 60% of GDP. Hence supporting SMES is one of the European Union priorities. [5]

This project would have number of significant policy implications. This research review here propose that competitive business environment of which access to finance is a vital component, ease exit, entry and growth of a firms and hence vital for the development process. An emphasis on improving the business environment for all firms is more important than just trying to promote a large SMES sectors which might be describe by a large number of small but stagnant firms. Recent research suggest that improving financial and legal institution helps all deserving firms to easily access finance and growth and this effect is greater on smaller firm . This research

suggest that small firms do fairly better than larger firms in countries with better developed institutions.

The Wilson committee in its report stated that financial argued for instance that SMEs being is relatively more risk compared to larger firms as because of lack of excess of credit from the market such as banks and other types of loans. [8]

There is little evidence of firm's strategic planning rules and regulations are considerably positively connected with the organisations financial position. Study was based 98 manufacturing firms of USA with the average sale of \$20 millions . This performance was based on financial performance of the firms which are involved in the formal planning and the firms which are not involved in formal planning. [7]

It could be sufficient to represent smaller area like Coventry UK. Even when considering the whole manufacturing industry as one industry is a not good decision. Any assumptions based on generalising whole small manufacturing firms that average result of \$ 20 million cannot give the right result and it should be divided into sub categories. The relationship between strategic planning to financial performance was examined by Rhyne, 1986. There is some research to study the relationship between planning and financial performance of small, mature firms. According to this survey of 550 small mature dry cleaning business in the USA ., proposed that the firm confirmed to the structured strategic planning categorising out performed to the other planning categorising with regards to the overall performance. [6]

Most of the SMES use annual budgets for financial planning and control. Most of the earlier research in this area spotlighted on the relationship between strategic planning and performance (OECD, 2006). There is not prove that SMES are failing because their lack of proper planning and control. Most of the earlier research has focussed on the relationship between strategic planning and performance. [URL1]

Many researches tried to categorize the performance into financial performance and non financial performance. Many researchers suggested BI-Vitiate are not sufficient to analysis planning and performance because it gives confusing and indecisive results. The researcher has stressed more on flexibility and its effect on planning and performance of the firm. Accordingly flexibility in decisions changes operational as well as financial issues.

Financial issues: It is the type of issue which can impact the financial performance of the company such as gearing and raising capital
Operational issues: It is the type of issue which is related to the products, services and production

Researchers had tried to generalized the result which is just based on questionnaire discussed with administration

There has been an academic discussion on the relationship between sophistication and performance of SMES. Until now little attention had been given to the financial plan and the control aspect of the planning . Control is necessary get the best results from the predetermine course of action of any organisation . Even the best plan cannot get the result as desired due to unexpected or unanticipated external and internal circumstances of the
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organisation. Therefore measuring actual performance against planned performance frequently and taking correct action on factors causing unfavourable deviations from the plan are important to get the best results anticipated through planning. Furthermore the impact of this process may change with organisation to organisation depending on the extent of its use . Besides majority of the small firms do not use any kind written plan . The use of planning and its extensiveness tend to increase the firm size.[URL 1]. Even though few researches have analysed both planning and control aspect of any firm, but none of them have determined the financial part of planning and control. There has been no empirical evidence into the complexity of both planning and control process and its impact upon the performance of SMES. For examples Ratnatunga and Roman (1994) has highlighted more on the two different stages of growth in only manufacture SMEs. It has found that also in mature market the firm with formal planning and control performs the firm than the lack of formal planning and control. [1]

From the previous studies we have found that strategic planning is positively connected to the performance of the companies. [6]

Researchers

Method

Result

Bracker and Pearson (1986)

Based on survey of small mature firms in the USA

Firms those follow structured strategic planning categorizations outperformed all other categorizations.

Bracker, Keats and Pearson(1998)

Based on survey of 217 SMEs in electronic industries in the USA

Suggested that level of planning sophistication is most important part of planning.

Rue and Ibrahim (1998)

Based on the survey of 253 SMEs in the USA.

There is a greater planning sophistication was associated with sales growth, but there is no significant relationship was found with respect to return on investment.

Wijewardena, Zoysa, Fonseka and Perera (2004)

Based on 168 manufacturing firm employee less than 300 employees in the Sir Lanka.

There is an important contribution of planning and control sophistication on the sales performance.

University of Portsmouth Business School in UK has done a research programme in an international survey of eleven countries which are finance by the group ESC Rennes. They examined the five sectors of Small medium enterprises that are: transport, retailing, industry, construction and services. The objective of that research was to identify the main factors in the profile <https://assignbuster.com/effect-of-financial-planning-control-performance/>

of the SMEs managers or owners that can influence the business performance; they have found very little correlation between the firm's performance managers and owner's involvement, it's more influenced by the managerial abilities rather than owners.

Finance is the first step to start any business in other word. As it is the pillar of any business. If the business has to succeed they has to perform well if they are not performing well then the business cannot survive for the longer period of time. Even though planning is also the key to any business because without any proper planning the business cannot survive or give the best results as expected , the effect between financial relationship between planning and control on performance of SMES in Australia. They examine that financial planning and controls have important contribution in the sales of manufacturing SMEs greater the degree of financial planning and financial control gives higher the sales growth but have not found any significant relationship with return on investment (ROI) They did not succeeded because for wide area of SMEs that's why this research is narrowed down from whole country to only one city. Previous research is based for Australian market while this research is based on Coventry, the part of UK market as it has wide range of influence on the business of franchise, any franchise business is not included in this research as franchise business does not get very much influence from any local area and they have strict terms and conditions to follow. [3]

CHAPTER 4 EXPECTED RESULTS

The results would be based on primary data. Quantitative data obtain from question analyzed by one way analysis of variance chi- square test and ANOVAs test.

The finance plays very important role in all business. On an average small firms getting even fewer benefits from gearing as compared to large firms because of the fact that small firms use owner's capital for long term finance. As a part of MSc investment and finance studies, My research has sustained an interest for me as to how do financial planning control and performance are interlink in case of SMEs. As such this research question focus on the following:

RQ1 How does financial planning effect on the performance of the SMEs in the Coventry and at what extent?

RQ2 How does financial control effect on the performance of the SMEs in the Coventry and at what extent?

This research would be very much related to my course; Msc Finance and investment. It would helped me gain the knowledge to understand role of finance in small business more deeply, it will help me to start my own business sooner or later after my masters and it will also enhance my financial knowledge.

The objective of this research would be to:

1) To evaluate the relation between financial planning and the change in sales of SMEs in the Coventry

- 2) To evaluate the relation between financial planning and the sales growth of SMEs in the Coventry
- 3) To evaluate the relation between financial planning and the ROI of SMEs in the Coventry.
- 4) To evaluate the relation between financial control and the change in sales of SMEs in the Coventry.
- 5) To evaluate the relation between financial control and the sales growth of SMEs in the Coventry.
- 6) To evaluate the relation between financial control and the ROI of SMEs in the Coventry.

The reason for choosing this topic for the dissertation is:

To utilize previous IT experience and work along with current curriculum of Finance, Strategy and Marketing Management.

To carry out management level research that would help me to establish own private business in future

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