

Critique of business plan for smes



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1. Introduction

Business plans are increasingly being necessary for SMEs leaders in advanced organizations as their leaders search for to broaden strategic judgments throughout the corporation in order to create superior co-ordination through connecting the business plans to different parts of the organization; to leverage on the strategic development of different parts of the total organization; and to develop a more methodical approach to making big changes within the sections of the enterprise (Richardson and Hawkins, 1995). Change has been happening all over the world economies. Entrepreneurs themselves are considered to be forceful catalysts for revolutionize (Kuratko & Hornsby, 2009).

The pressure of business planning on firm performance has received broad attention from management researchers. Past research indicates a positive relationship between planning and organizational performance (Sarason and Tegarden, 2003). While it may seem that business planning is a very open and formal process, research into smaller businesses has identified that in practice it can be haphazard and informal (Cuthbert & Johnston, 1997).

Different views and types of business plans catch the attention of the business world; different types of critics are perceived as it unsupportive for the purpose of strategic development within organisations (Mintzberg 1994). This study therefore attempts to rectify this imbalance by examining the relationship between business planning and organizational performance in a SMEs environment. Author tries to bring out critique of business planning with the experience using the consultancy business plan and theory and practice of business plans in the light of SMEs.

2. Background to the Study

The consultancy project based on a start up photography business belonging to Katalin Galuska. Staff of two, with plans to expand to a full-time operation within the next 3 years. The company is at initial stage, established as a home-operated, full-time sole proprietorship. It is the intention of the company to develop novel business units and broaden the client base so as to become a renowned photography business in York. Three team members proposed plan brings out suitable opportunities for the Galushka to focus on developing a photography brand in coming years. We have made a effort to realized this by using different business tools. The study based on this experience with in business planning context.

3. Formal and Informal Business planning

According to Mintzberg (1987), the approach of a firm can be conceptualised as a plan such as position in the marketplace, vision with reference to the prospect and the firm's state or as a form for actions within the decision making process. At the same time the rigid strategic management literature implies that there is a beneficial link between strategic planning and company performance; with coincide from planning to performance (Greenley, 1995). A proper business plan for a sound business concept aids organizations to succeed in business goals. It keeps firms cash and time by focusing the core business operations by adding more control over the cash flows, marketing and operations. It also boosts the capital requirements of the business (Rhonda and Kleiner 2003).

The procedure of business planning is where the top management examine both the internal environment and the external environment to carry out a

Strengths, Weaknesses, Opportunities and Threats analysis and evaluate the extent of the company mission (Wheelen and Hunger 1991). In contrast Georgellis et al (2000) study on PEST and SWOT proved that over 90 percent of the firms in within the sample had not use or heard of a PEST analysis and 80 percent of a SWOT analysis. Although 82 percent of firms had practiced competitive analysis in their planning process. In the consultancy project we found that client is not much focused on SWOT analysis.

The main aspects of business planning are extensive time periods, formality, the use of planning instruments, and regular manage of plans. This type of planning can brings out performance by generating relevant information, by creating a better understanding of the important environment, and by reducing uncertainty (Hodgetts and Kuratko, 2001). As a example; MAS holdings in Sri Lanka is the largest intimate apparel manufacture in South Asia over 44, 000 employees and won many international awards such as; Vendor of the Year by Victoria's Secret in 2006, 2005: Excellence in Social Responsibility Award for women's issues by American Apparel and Footwear Association ([www. ifc. org](http://www.ifc.org)). According to the director of corporate branding and strategies, the secret behind the success is whole-systemized planning which include women empowerment (Anon 2008). Delmar and Shane (2003) express the view that by incorporating a systematic planned approach brings out better results for an organization performance than others who are doing informal is ambiguous. In Toyota, Fujio cho, the president says that Total Production Systems practices are based on well planed core principles created values, beliefs and business planning methods and he further states those have become competitive edge over the years. So, for Toyota, culture

is more important and they drive organisation benefiting from their strong homogeneous planed culture (Liker, 2004).

Another view is that business planning is more effective as a version of past decisions than as a program for future once. It can be used as a fraction of the efforts of the organization to develop new steady assumptions of itself that add in the mix of recent efforts into a moderately wide array of planned goals (Mintzberg 2000). Though, extreme dependence on systematic business planning compared with the need for the management self-rule and organizational learning in an era where compliance and flexibility are vital to cope with the rapid rate of environmental change (Anderson 2000). Many commentators believe that differences of culture at Daimler and Chrysler made its merger more difficult without long term plan. But In August 2000, Daimler's chief executive of cars, Jurgen Hubbert, was quoted in The Economist: ' we have a clear understanding: one company one vision, one chairman, two cultures.' Finally with the acknowledged existence of two cultures, DaimlerChrysler truly become one company with one vision is now operating as Chrysler. Emergent strategy and flexibility may give the best opportunity yet to meld the cultures (Sculler & Jackson 2001, pp. 248). It is evident that even without a formal long term plans some strategies become success.

4. SME Vs Business plans

Entrepreneurs have a very important function in the economy; they provoke relatively much employment creation, productivity growth, and produce and commercialize high-quality innovations (Praag and Versloot 2007). Thus, Gibson and Cassar (2002) stated that Entrepreneurs required connecting in

planning. In pragmatic perspective Andries and Debackere (2006) explained new ventures experience significant difficulties in finding a viable business model, and they often need to adapt their initial business plans. It is evident in Galukasha photography business where client is struggling with business planning their photographic venture and resorting from many government and private organizations for assistance.

SMEs development plan is a multifaceted process in which the entrepreneurs engaging in a business plan with a vision for growth, possibly deriving of market opportunities. At the same time owner managers require gathering ample resources to enable growth to happen and acquire right strategic balance (Kemp and Verhoeven, 2002). The practice of planning and knowledge management in small and medium-sized enterprises (SMEs) varies from that of an outsized organisation (Wong and Aspinwall, 2004). Apart from that Desouza and Awazu (2006) explains SMEs try to adapt simple planning and unofficial rules and procedures. They reduce most of standardised procedures like planning. It leads to more adaptable strategies in various situations. SMEs similarly have a different scope which aims on operational, fairly than strategic, processes. They are more skilful at using implicit knowledge for planning.

Research exemplified that whilst the business is at initiative approach stage the entrepreneur act as more than just a leader who prepare plans, he or she can be act as a marketer and a sales agent, a public relations officer, a financial controller and so on, occupying numerous roles and wearing many different hats simultaneously (Cope, 2001; Fuller-Love, 2006). It is significant that entrepreneurs in no way initiate the preparations for a business plan

without first having some sort of skills and training in the field. Entrepreneurs launch new ventures with the intention of attaining a certain level of success and viability of the plans (Barringer, 2009). In consultancy project it was evident that the client was running art workshops and was also involved in a commissioned wedding photography session as hobby. It is worth mentioning that she also facilitated eight stop motion animation workshops as part of the British Library's Inside Story exhibition at Hillcrest Primary School in Leeds. That also provided the foundation to go for a business plan to initiate her own photography venture in the future. Shane and Venkataraman (2000), and the entrepreneur does not generate future plans in isolation or only from the resource of technological, political, or socio-demographic turbulences in the environment. As an alternative, these types of opportunities are common creations which leverage and developed from different interaction. Further more, opportunities arise from the creativity of individuals, who carry out dissimilar activities based on a continuous understanding of each other's sense and activities in addition to the appearance of the material environment.

In consultancy project it was experienced that there is no proper system for acquiring competitor information due to budget and time constraint. As a example in competitor analysis it is worth to do mystery shopping kind of marketing research technique for the purpose of getting qualitative information. In complex business environment the availability and access to quality and reliable information is essential. This enables small business to keep the pace with the large companies for shaping their strategies when implementing a business plan (Franke, 1999). Apart from that most of

information in plan is impact by the unpredictability of the future. Further future cannot always be extrapolated in the course of data based in past relationships, because there are drivers of change in social systems that are multiple and inconsistent in nature (Berkhout and Hertin, 2002). One of classic example for failures in business plan is Navan tourist Centre in Northern Ireland. The centre closed in 2001 after more than £5m in public funding ran out. The public account committee stated that this failure is due to “unrealistic” visitor number forecasts. The Navan Centre was opened in July 1993 and is regarded as a premier archaeological site in Northern Ireland. The forecasted visitor numbers were 160, 000 for next years. In reality, annual visitor numbers never exceeded 50, 000 and averaged 33, 000 over eight years ([www. bbc. co. uk](http://www.bbc.co.uk)).

There is a famous anecdote in business world; a shoe sales person going in a rural Amazon jungle community to searching that no one of the locals are wearing shoes. Is this a impossible market with no probability, or a major market for growth? Over time, market potential will change. It's beyond the organizational planning and controls (Brassington and Pettitt, 2006). Thus Goodwin and Wright (2001) suggest that in a unpredictable environment, anticipating methods of past trends are implausible to produce consistent forecasts of the medium- to long-term. They also suggest that since such type of forecast is often brings out as single point predictions, it is hard to weigh up the level of ambiguity within the forecast. Taking into consideration these limitations of predictors, the matter is how can firms deal with the apparent insecurity about the future state of the external environment by planning?

Mainly of SME owner/managers are doing marketing planning through their ordinary and informal networking activity, through all their normal communication activities, such as interacting and participating in social, business and trade activities (Gilmore 2001). Galuksha photography owner, develop her networks with the different people and organizations by the workshops. She incorporates most of business planning ideas in the plans though the knowledge acquire by this type of events. As an example she has participated York St John university workshop in entrepreneurship.

Similarly analysers who involved in business plans are take the advantage in the sense of utilizing the best qualities of protectors and prospectors. Analysers use informal, adaptive strategies to create alignment (Kearns, 2007). In consultancy project where all fight with traditional photographic market such as wedding , family portrait and events photography , consultants suggested to move to PET photography market which untapped by most of players in York. Similarly, incorporating marketing to smaller firms is a spontaneous approach. SMEs' marketing activities are greatly depends on conventional practices and experiences. Any efforts to formulate a marketing plan using standard marketing concepts are throwing away in newly established firms. Small business marketing plans are wholly reliant on the intensity of the practice and awareness of owners/managers (Huang and Brown, 1999). Study on Dutch SMEs, business planning process expressed that a few number of firms had formal, written business plans, whilst roughly a half check their plans at least yearly (Gibcus and Kemp's, 2003). The whole idea behind the above argument in entrepreneur business planning is that

opportunities are considering and strategies are used to take advantage of such opportunities without a formal plan or an informal plan.

Burns (2007) illustrates that most of the small firms involving with the business plans as a tool to obtain capital. This however can be considered as two – sided argument. In spite of the survival of the view that business plans are essential to securing capital gain for businesses, Different view is that investors look business plans totally insignificant and consequently try to disregard them. The comprehensive idea from this is that business plans will unable to use as a tool for funding (Bowers, 2009). It was experienced that in the consultancy project client require to a obtain loan form the bank by using the business plan.

According to a study among 135 winners of the Australian Entrepreneur of the Year in 2004 awarded by Ernst and Young, found most (72 percent) believed the major input to their business was the owner's vision in place (Mazzarol 2009). Further another study founds that 70 per cent of the smaller enterprises, reported via time span of one to three years, and 92 per cent confirmed to even plan for more than three years without having much thought. Another interesting fact that, planning in smaller enterprises is hardly ever aided by planning models, since the majority of the SMEs stated that they planned by instinct, and did not use planning models (Stonehouse and Pemberton, 2002). Wickham (2001, pp 143) explains the vision of a entrepreneur as ' a picture of the new world he or she wishes to create. It is a picture into which the entrepreneur fits an understanding of why people will be better off, the source of new value that will be created, and the relationships that will exists. Vision exists in the tension between what is and

what might be.' All in all such critically structures planning are clearly incongruous in time of uncertainty, the setting of longer-term objectives and vision is compulsory for the continued existence and evolution of an organization (Stonehouse and Pemberton, 2002). Sarasvathy (2001) convoluted entrepreneur planning processes as a creativity process. The first type is when entrepreneur has a goal to develop a enterprise and he or she is aggressively looking for opportunities and the second one is when there is no way to search for opportunities, but the person has an aim of solving an emerging issue and can put into practice it after. The "Austrian approach" differently brings out that, occasionally people don't looking for opportunities, but because they have an admission to particular information, it can allow them to spot opportunities others unable to capture. As a example, In consultancy project it is evident that the company is at initial stage, established as a home-operated, by means of her passion in art & photography field. Her intention of the company is to develop novel business units and broaden the client base so as to become a renowned photography business in York. In proposed emergent idea plan brings out suitable opportunities for the Galushka such as PET photography and online to focus on developing a photography brand in coming years. This type of creative ideas can be arising by creativity of the people and belief in rule by small numbers (predictions done from a small amount of information) (Simon et al., 1999) and self-importance (Fitzsimmons and Douglas, 2005) be likely to reduce the view of risk associated with initiation and therefore support individuals to act entrepreneurially without a formal plan.

5. Conclusion

Above findings point out that there is a paradox of formal and informal planning in small firms. Whilst the use of formal business planning and focus on core strategies in small firms is little, however it can't be suggest that SMEs are not involving in planning actions since they usually carry out in informal ways and leads to success. This brings out that within the context of the business planning, firms need to locate ways of dealing with the unpredictability of their future external environments. The most significant point is that not the drafting of a business plan, except a SMEs leaders ability to think and act in a strategic way. Cummins et al., (2000) explains elements such as readiness to change are also part of the informal planning process which is integral to SMEs; where proaction require to SMEs involvement in prediction and anticipation in their planning activities, with a view to acting moderately than reacting. Similarly Merrilees and Frazer (2006) found that highly winning entrepreneurial franchisees exhibit “ hidden” marketing success in relation with their personalities, force to creativity, and ambition.