

**THE ROLE OF BUSINESS PLANNING IN SMALL
AND MEDIUM-SIZED ENTERPRISES, WITHIN
ABSA BANK LIMITED**

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ABSTRACT

The Global Entrepreneurship Monitor report of 2006 revealed that since 2000 a total number of 24,920 business liquidations and 18,730 insolvencies amounted in South Africa. In a country where entrepreneurship holds the key to economic growth this is a worrying founding. Commercial banks are profit seeking and risk-averse institutions needing to be satisfied in respect of financial stability of SMEs that seek funding from these institutions. This study researches the role of business planning to establish the importance of planning efforts in selected SMEs within Absa Bank Limited.

Entrepreneurship today requires skills and ingenuity to manage and control resources in order to pursue the opportunity. However, before and after start-up not many entrepreneurs plan properly to contemplate the future, or take the necessary steps to revisit the performance of the business regularly. It is evident from the literature review that planning activities are a critical element of business survival in new economies. Recent surveys indicate that 90% of business failure relates strongly to a lack of managerial skills such as financial planning and related managerial skills.

The research findings confirm that SME owners and managers experience business planning as an important managerial function to increase business success. The study concludes that many practical significant relationships exist between planning and other variables. The challenge is to improve the level of financial and managerial skills of business owners and managers in South Africa to improve the understanding of how a business should operate more successfully through continuous planning efforts.

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TABLE OF CONTENTS

ABSTRACT	ii
LIST OF TABLES	viii
LIST OF KEY TERMS	xi
LIST OF ABBREVIATIONS	xii

CHAPTER 1: INTRODUCTION AND PROBLEM STATEMENT 1

1.1	INTRODUCTION	1
1.2	PROBLEM STATEMENT	2
1.3	RESEARCH OBJECTIVES	3
1.3.1	Primary objective	4
1.3.2	Secondary objectives	4
1.4	METHODOLOGY	4
1.4.1	Literature review	4
1.4.2	Empirical design	5
1.4.2.1	Sample frame	5
1.4.2.2	Participants	5
1.4.2.3	Measuring instrument	6
1.4.2.4	Statistical analysis	7
1.5	DIVISION OF CHAPTERS	8
	REFERENCES	9

CHAPTER 2: THE ROLE OF BUSINESS PLANNING IN SMALL AND MEDIUM-SIZED ENTERPRISES, WITHIN ABSA BANK

	LIMITED	11
	ABSTRACT	11
2.1	INTRODUCTION	12
2.2	PROBLEM STATEMENT	13
2.3	LITERATURE REVIEW	18
2.3.1	Introduction	18
2.3.2	Entrepreneurship	19
2.3.3	Business planning	19

2.3.4	Problems experienced by SMEs	21
2.3.5	General management	22
2.3.6	Strategic management skills	23
2.3.7	Marketing	23
2.3.8	Financial skills	24
2.3.9	Financial ratios	25
2.3.10	Cash flow management	26
2.3.11	Financing	27
2.3.12	Technology	28
2.3.13	Competitive analysis	29
2.3.14	Competitive advantage	29
2.3.15	The business plan	29
2.4	RESEARCH METHODOLOGY	31
2.4.1	Research design	31
2.4.1.1	Literature review	31
2.4.1.2	Empirical research	32
2.4.2	Sample frame	32
2.4.3	Participants	32
2.4.4	Measuring instrument	34
2.4.5	Responses	35
2.4.6	Statistical analysis	35
2.5	RESULTS	36
2.5.1	Descriptive statistics	36
2.5.1.1	Survey participants	36
2.5.1.2	Number of active years trading	37
2.5.1.3	Industry participants	37
2.5.1.4	Number of full-time employees of participants	37
2.5.1.5	Annual sales turnover in South African Rand	37
2.5.1.6	Age group of participants	37
2.5.1.7	Qualifications of participants	38
2.5.1.8	Training as key success factor	38
2.5.1.9	Reasons why training is a necessity to support training	38
2.5.1.10	Reasons why training is NOT considered important to support success	38

2.5.1.11	Hours spent on business planning	38
2.5.1.12	Business activities considered before start-up	39
2.5.1.13	Importance of business activities influencing business planning	39
2.5.1.14	Importance of employee factors to support business planning	39
2.5.1.15	Importance of strategic factors to support business planning	39
2.5.1.16	Importance of financial factors to support business planning	39
2.5.1.17	Importance of marketing factors to support business planning	40
2.5.1.18	Importance of technology factors to support business planning	40
2.5.1.19	Importance of financial ratios to support business planning	40
2.5.1.20	Regular measurement of cash flow against actual figures	40
2.5.1.21	Regular measure of general business performance against strategic goals	40
2.5.2	Practical significant relationships	41
2.5.2.1	Relationship between the number of employees and necessity for training	41
2.5.2.2	Relationship between the number of employees and time spent on business planning	41
2.5.2.3	Relationship between number of employees and the consideration of strategic goals and objectives before start-up	41
2.5.2.4	Relationship between number of employees and the consideration of a business plan before start-up	42
2.5.2.5	Relationship between number of employees and electronic processes to support business planning	42
2.5.2.6	Relationship between number of employees and the importance of debtors' collection ratio	42
2.5.2.7	Relationship between number of employees and creditor payment ratio	43
2.5.2.8	Relationship between number of employees and stock turnover ratio	43
2.5.2.9	Relationship between number of employees and regular measurement of cash flow against actual budget	43
2.5.2.10	Relationship between industry and the consideration of a viability study	44

2.5.2.11	Relationship between financial projections and industry type	44
2.5.2.12	Relationship between industry type and importance of financial skills	44
2.5.2.13	Relationship between industry and debtors and creditors management	45
2.5.2.14	Relationship between sales turnover and cash flow management to support business planning	45
2.5.2.15	Relationship between the legal form of business and electronic cash flow model as success factor in business planning	45
2.5.2.16	Relationship between legal form of business and how often they measure actual performance against strategic goals	46
2.6	DISCUSSION	46
2.6.1	Descriptive statistics	46
2.6.2	Practical significant relationships	49
2.6.3	Summary	50
2.7	RECOMMENDATIONS	50
2.7.1	Introduction	50
2.7.2	Training and development	51
	REFERENCES	53

CHAPTER 3:	CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS	60
3.1	INTRODUCTION	60
3.2	CONCLUSIONS	60
3.3	LIMITATIONS	62
3.3.1	Limited geographical scope of the study	62
3.3.2	Limited sample size of entrepreneurs	62
3.3.3	Limited time to conduct the quantitative survey	63
3.4	RECOMMENDATIONS	63
	REFERENCES	65

LIST OF TABLES

Table 2.1	Characteristics of participants	33
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LIST OF APPENDICES

Appendix 1:	Questionnaire	66
Appendix 2:	Descriptive statistics	72
Figure 2.1	Survey participants	72
Figure 2.2	Number of active years trading	72
Figure 2.3	Industry participants	73
Figure 2.4	Number of full-time employees of participants	73
Figure 2.5	Annual sales turnover in South African Rand	74
Figure 2.6	Age group of participants	74
Figure 2.7	Qualifications of participants	75
Figure 2.8	Training as key success factor	75
Figure 2.9	Reasons why training is a necessity to support planning	76
Figure 2.10	Reasons why training is NOT considered important to support success	76
Figure 2.11	Hours spent on business planning	77
Figure 2.12	Importance of business activities before start-up	77
Figure 2.13	Importance of different business activities	78
Figure 2.14(a)	Importance of employee factors to support business planning	78
Figure 2.14(b)	Importance of strategic factors to support business planning	79
Figure 2.14(c)	Importance of financial factors to support business planning	79
Figure 2.14(d)	Importance of marketing factors to support business planning	80

Figure 2.14(e)	Importance of technology factors to support business planning	80
Figure 2.15	Importance of financial ratios to support business planning	81
Figure 2.16	Regular measurement of cash flow against actual figures	81
Figure 2.17	Regular measurement of general business performance against strategic goals	82
Appendix 3:	Statistical analysis	83
Figure 3.1	Relationship between number of employees and necessity for training	83
Figure 3.2	Relationship between number of employees and time spent on business planning	83
Figure 3.3	Relationship between number of employees and the consideration of strategic goals and objectives before start-up	84
Figure 3.4	Relationship between number of employees and the consideration of a business plan before start-up	84
Figure 3.5	Relationship between number of employees and electronic processes to support business planning	85
Figure 3.6	Relationship between number of employees and the importance of debtors collection ratio	85
Figure 3.7	Relationship between number of employees and creditor payment ratio	86
Figure 3.8	Relationship between number of employees and stock turnover ratio	86
Figure 3.9	Relationship between number of employees and regular measurement of cash flow against actual budget	87
Figure 3.10	Relationship between industry and the consideration of a viability study	87
Figure 3.11	Relationship between financial projections and industry type	88
Figure 3.12	Relationship between industry type and importance of financial skills	88

Figure 3.13	Relationship between industry and debtors and creditors Management	89
Figure 3.14	Relationship between sales turnover and cash flow management to support business planning	89
Figure 3.15	Relationship between legal form of business and electronic cash flow model as success factor in business planning	90
Figure 3.16	Relationship between legal form of business and how often it measures actual performance against strategic goals	90

LIST OF KEY TERMS

- ❖ Small and medium enterprises
- ❖ Business planning
- ❖ SME failure
- ❖ Entrepreneurial skills
- ❖ Management skills
- ❖ Financial skills
- ❖ Business plans

LIST OF ABBREVIATIONS

- FASA - Franchise Association of South Africa
- GEM - Global Entrepreneurship Monitor
- SMEs - Small and medium-sized enterprises

CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1 INTRODUCTION

Entrepreneurship is one of the most significant economic driving forces in developed and developing countries. In South Africa, small and medium enterprises (hereinafter referred to as SMEs) play an important role in the economy, since it employs 72% of the workforce and contribute 28% to the gross domestic product of the country (Van der Linde, 2006:69). All these businesses face ever changing and unpredictable macro economic circumstances where fundamentals of economics alone are no longer able to forecast business success (Lenepa, 2003:40).

Starting a business is a risky process that often involves cycles of failure. The Global Entrepreneurship Monitor report (hereinafter referred to as the GEM report) reveals that 43,650 close corporation and private company liquidations and insolvencies were reported in South Africa since 2000 (Maas & Herrington, 2006:26). South Africa has a harsh attitude towards failure, which inhibits many potential entrepreneurs to take the plunge, as it were (Maas & Herrington, 2006:12). If there is one thing that most entrepreneurs have in common, it must be the lack of patience. Literature often cites that planning plays an important role in determining the degree of success realised by SMEs.

The key to ensuring a better chance of success is to plan properly. Planning, however, tends to be an activity from which novice (and sometimes expert) entrepreneurs can see no obvious or direct effect on the profits of the business; therefore, it is often given a low priority. Planning is vital; it means

tracking and reviewing the progress of the business, comparing the plan versus actual results, correcting the course without losing sight of the long-term destination. The future is unknown territory; however, planning and forecasting can minimise unknown future risk (Berry, 2006).

Commercial banks are profit-seeking and risk-averse institutions. Banks need to be satisfied in respect of the financial stability of enterprises that seek funding from these institutions. To this effect, management procedure for SMEs seeking funds, have to be acceptable and recognized by the commercial banks from which funds are sought (Mashiya, 1998:2). In view of this, practices of planning, organising, directing and controlling a business are some of the key features over which SMEs have control in indicating its risk profiles to the commercial banks. Planning can make or break the start-up business, and of course SMEs also. In view of the above, ABSA Business Banking seeks to establish the value of planning within the small and medium business segment.

1.2 PROBLEM STATEMENT

Problems experienced by business owners in conducting a successful business fall into two categories; namely, market related issues and enterprise-based issues. Enterprise-based problems are associated with 65% of business failures (Dockel & Ligthelm, 2002:3). Surveys of business failure suggest that SME entrepreneurs often have good ideas, but many do not have the ability of how to run a business and have no underlying appreciation of business fundamentals (Baron, 2000:1). Literature often cites a lack of business skills and training as a major cause of business failure (Viviers, Van Eeden & Venter, 2001:11).

The low conversion rate in South Africa (Maas & Herrington, 2006:12) emphasises the fact that most entrepreneurs neither devote adequate time to contemplate the future, nor take the necessary steps to regularly recap the performance of its business operations (Diercks, 2006).

The chances of success are better when enterprises understand and address anticipated problems before the launching of a business. Unfortunately, the record of survival is not auspicious among all businesses started. Research from the Centre for Innovation and Entrepreneurship based at the UCT Graduate School of Business has shown that there is a worrying link between a lack of basic financial skills and financial woes. This research study found that many SMEs are suffering because of poor financial literacy and inadequate management practices (Firer, 2004:11).

The competitive forces that challenge SMEs are much stronger in today's global economy than ever before and planning requires more skills than less. Changing markets and global competition are reasons why commercial banks are more risk averse than ever before. Commercial banks expect from its business banking clients, in its efforts to minimise lending risk, that reasonable planning and processes should be implemented and maintained.

The primary goal of this study is to determine the role that business planning plays in selected SMEs, and the extent to which owners/managers of SMEs within Absa Bank Limited experienced business planning procedures, in its businesses.

1.3 RESEARCH OBJECTIVES

The goal of the study is summarised in a primary objective and secondary objectives.

1.3.1 Primary objective

The primary goal of the study is to determine the role of business planning, as perceived and experienced by SMEs within the Pretoria East Business Banking segment of Absa Bank Limited.

1.3.2 Secondary objectives

The secondary objectives of this study are to:

- ❖ Undertake a literature study of the most prominent firm-based factors experienced by SMEs.
- ❖ Collect data through a structured questionnaire on managerial and financial skills influencing business planning.
- ❖ Establish whether significant relationships exist between business planning within selected SMEs and key variables.
- ❖ Report the empirical analysis.

1.4 METHODOLOGY

The research study consists of a literature review and an empirical study.

1.4.1 Literature review

The literature review conducted utilised computer-based research according to the key words identified in the list of key terms. The purpose of the literature review provided a scientific basis for the theory, and recognised prior research done on this topic. To determine the role of business planning in SMEs, the author consulted primary and secondary sources to gather appropriate information for a logical analysis thereof. The information consisted of collected journals, articles, press reports, textbooks and research studies.

Business plans, business planning, reasons for business failure or success, financial skills, business management, managerial skills, measurements systems, forecasting and other business skills needed to support business planning in SMEs were also researched secondarily.

1.4.2 Empirical design

In order to support the primary objective of the study to determine the role of business planning in SMEs within Absa Bank Limited, an empirical survey by means of a structured questionnaire was conducted. The researcher enquired about business planning practices as perceived and experienced by the selected SMEs.

The secondary objective includes undertaking a literature study of the prominent planning practices influencing SMEs and establishing whether significant relationships exist between business planning practices on the one hand, and selected variables from the questionnaire on the other hand.

The focus is then directed to the empirical findings, conclusion and recommendations.

1.4.2.1 Sample frame

The population consists of SME clients of the Absa Business Banking segment of Pretoria East, Gauteng. The population comprises 180 SMEs.

1.4.2.2 Participants

A sample of ($n=108$) businesses was randomly selected from the population, and each business owner or manager was interviewed face-to-face or telephonically. The requirements for the sample had been that each of the businesses:

- ❖ Were an existing SME client of the Absa Business Banking segment of the Pretoria East region;

- ❖ Was operating from a demarcated business area – Pretoria East, Gauteng;
- ❖ Was classified in the following economic sectors: professional services, manufacturers, retail, wholesale, IT industry, real estate, travel and tourism, construction, food and restaurants, and the transport industry;
- ❖ employed fewer than 50 full-time workers;
- ❖ realised an annual turnover of less than R50 million.

1.4.2.3 Measuring instrument

The four major techniques for gathering data are questionnaires, interviews, observations, and unobtrusive measures. One of the most efficient ways to collect data is through questionnaires (Cummings & Worley, 2005:116-117). In an effort to assess the role of business planning and the influence of firm-based factors as perceived and experienced by SMEs, the researcher developed a measuring instrument. The measuring instrument for the study consisted of a structured questionnaire, checked for ambiguity and other possible problems. The researcher chose the questionnaire method because of the widespread geographical nature of small and medium-sized enterprises in the Pretoria East area.

The researcher made sure that the respondents in the pre-test (version 1) were similar to those included in the actual survey(version 2) in terms of being an existing small and medium business-banking client within the Absa Business Banking segment of Pretoria East region, Gauteng. The pre-test took place during September 2007 where seven respondents in the demarcated area participated. The researcher made only minor modifications after the pilot stage. The researcher completed all questionnaires. The completion of each questionnaire lasted approximately 15-20 minutes.

The questionnaire consisted of demographic questions as well as questions relating to business planning. The questionnaire was presented in the following format:

- ❖ Questions one to seven posed related to the legal status of the entity, years of trading, industry, and number of employees, turnover, and the age and qualifications of the entrepreneur.
- ❖ Questions eight to seventeen determined the extent of the role that firm-based factors played in the perceptions and experiences of SME owners and managers.

1.4.2.4 Statistical analysis

Effect sizes determined the practical significance of relationships. Effect sizes indicate whether obtained results are important (Ellis & Steyn, 2003:51-53). A cut-off point of 0.50 (large effect) was set for the practical significance testing (2003:53).

1.5 DIVISION OF CHAPTERS

The layout of the study includes the following:

- ❖ Chapter 1: This chapter contains an introduction, the problem statement, the research objectives, and research methodology used to determine the role of business planning in SMEs. The chapter concludes by giving a brief overview of the division of chapters.
- ❖ Chapter 2: This chapter is in article format. The literature review analyses theory with regard to the role of business planning in SMEs. For the empirical study, the researcher developed a structured questionnaire to gather data through face-to-face and telephonic interviews to achieve the primary and secondary objectives of the study. The chapter concludes with the results obtained from the survey. The researcher attempts to emulate and emphasise through this study that effective business planning is critical to support SME owners and managers to manage a business successfully in ever changing global markets.
- ❖ Chapter 3: This chapter contains the conclusions drawn from the results of the survey. The chapter presents limitations and recommendations for future research.

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CHAPTER 2

The role of business planning in small and medium-sized enterprises, within Absa Bank Limited

ABSTRACT

World-wide, entrepreneurship is recognised as one of the most significant driving forces of economic growth in developed and developing countries. SME's are a critical element of the South African economy because it contributes to business and employment creation. A worrying finding is that South Africa has the lowest entrepreneurial activity rate of the 35 developing countries that participated in an annual survey of the Global Entrepreneurial Monitor. Starting a business is a risky process that often involves cycles of failure and South Africa has a harsh attitude towards failure, which inhibits many potential entrepreneurs to take the plunge.

Surveys of business failure suggest that entrepreneurs often have good ideas and are competent people, but "do not have a clue to run a business and have no underlying appreciation of business fundamentals". SMEs often need start-up capital or funds to expand operations; however, commercial banks are profit seeking and risk-averse institutions that need to satisfy itself in respect of financial stability of SMEs that seek funding from the banks. Practices of planning are some of the key features over which SMEs have control that indicate the SMEs' risk profile to commercial banks.

This study researches the role of business planning in SMEs within Absa Bank Limited. The research findings indicate that several strong significant relationships between business planning and selected variables exist. The

challenge is to improve the level of planning efforts within SMEs to improve the understanding of how a business should operate more successfully through continuous planning efforts.

2.1 INTRODUCTION

Entrepreneurship is one of the most significant economic driving forces in developed and developing countries. In South Africa, small and medium enterprises (hereinafter referred to as SMEs) play an important role in the economy, since it employs 72% of the workforce and contribute 28% to the gross domestic product of the country (Van der Linde, 2006:69). All these businesses face ever changing and unpredictable macro economic circumstances where fundamentals of economics alone are no longer able to forecast business success (Lenepa, 2003:40).

Starting a business is a risky process that often involves cycles of failure. The Global Entrepreneurship Monitor report (hereinafter referred to as the GEM report) reveals that 43,650 close corporation and private company liquidations and insolvencies were reported in South Africa since 2000 (Maas & Herrington, 2006:26). South Africa has a harsh attitude towards failure, which inhibits many potential entrepreneurs to take the plunge (Maas & Herrington, 2006:12). If there is one thing that most entrepreneurs have in common, it must be the lack of patience. Literature often cites that planning plays an important role in determining the degree of success realised by SMEs.

The key to ensuring a better chance of success is to plan properly. Planning, however, tends to be an activity from which novice (and sometimes expert) entrepreneurs can see no obvious or direct effect on the profits of the business; therefore, it is often given a low priority. Planning is vital; it means tracking and reviewing the progress of the business, comparing the plan versus actual results, correcting the course without losing sight of the long-term destination. The future is unknown territory; however, planning and forecasting can minimise unknown future risk (Berry, 2006).

Commercial banks are profit-seeking and risk-averse institutions. Banks need to be satisfied in respect of the financial stability of enterprises that seek funding from these institutions. To this effect, management procedure for SMEs seeking funds, have to be acceptable and recognized by the commercial banks from which funds are sought (Mashiya, 1998:2). In view of this, practices of planning, organising, directing and controlling a business are some of the key features over which SMEs have control in indicating its risk profiles to the commercial banks. Planning can make or break the start-up business, and of course SMEs also. In view of the above, ABSA Business Banking seeks to establish the value of planning within the small and medium business segment.

2.2 PROBLEM STATEMENT

South African SMEs face relentless global markets and unending customer demands every working day. According to the 2006 Global Entrepreneurship Monitor (GEM) report, South Africa has the lowest entrepreneurial activity rate of the 35 developing countries that participated in an annual survey of GEM (Maas & Herrington, 2006:12). The SME sector is widely regarded as the driving force of economic growth in both developed and developing countries (Cant & Erdis, 2005:35). SMEs are the growth engines of the world's economies; yet, the success rate is not as impressive as it could be, simply because of a lack of proper business management practices (IFC, 2007:1). The release of the 2007 IMD World Competitiveness Yearbook reveals a drop in South Africa's overall ranking from 38th position to 50th position out of 55 countries. Problems entail skilled labour, 55th, the brain drain, 55th and the availability of financial skills and competent senior managers ranking 52nd and 51st (NPI, 2007: 1).

There is a substantial body of knowledge, concepts and tools that entrepreneurs need to know before taking the start-up challenge, but also during, and after start-up (Timmons & Spinelli, 2004:xi). Entrepreneurship in the new economy requires skills and ingenuity to find and control resources to pursue the opportunity (Timmons & Spinelli, 2004:48). If South African SMEs

are to stay a force in the economic growth and development of the country, enterprises need to be better equipped to survive in the long-run (Cant & Erdis, 2005:35).

The low conversion rate in South Africa (Maas & Herrington, 2006:12) press home the fact that most entrepreneurs neither devote adequate time to contemplate the future nor take the necessary steps to regularly recap the operational performance (Diercks, 2006:1). Dockel and Ligthelm (2002:2) classify the problems experienced by business owners in conducting a successful business into two categories; namely, market related issues and enterprise-based issues. Enterprise-based problems are associated with 65% of business failures (Dockel & Ligthelm, 2002:3). A survey done by Professor Leon Hendricks revealed that between 70 and 80 per cent of South African businesses fail within five years (Rwigema & Venter, 2004:68).

SMEs encounter numerous problems relating to financial, marketing, human resource, social and managerial issues, among others. Surveys of business failure suggest that SME entrepreneurs often have good ideas and are competent people, but “they don’t have a clue of how to run a business and have no underlying appreciation of business fundamentals” (Baron, 2000:1). Everett and Watson concur that considered macroeconomic variables such as interest rates, unemployment and inflation rates, found that firm-based problems were associated with 65% of business failures (1998:371-390).

A prior study by Peterson, Kozmetsky and Ridgeway (1983:15-19) estimated that internal micro factors were responsible for approximately 70% of business failure. According to the South African Bulletin of Statistics (issued by Statistics SA) a total number of 302,409 business enterprises were summoned for debt related defaults and 114,436 judgements given for the years 2005 and 2006 (2007:75-103). The rand value for the judgements were R2 107 336 000.00 for the same period (Statistics SA, 2007:12.7-12.12).

Literature often cites a lack of business skills and training as a major cause of business failure (Viviers, Van Eeden & Venter, 2001:11). Furthermore, a more recent survey by Radipere and Van Scheers (2005:409) indicates that 90% of business failure relates strongly to a lack of managerial skills such as financial skills, planning, managing of credit and record keeping.

Among the most frequently mentioned macro factors are recession periods, interest rate changes, amendments in government policy, inflation, the entry of new competition, and product obsolescence. However, the above factors are rarely the sole reason for business failure. External shocks have an impact on all businesses in an industry, and only some fail. Moreover, most causes of failure materialise within the business management cadre. The most frequently cited failures fall into three broad areas: inattention to strategic issues, general management problems, and poor financial systems and practices (Timmons & Spinelli, 2004:580). Since businesses are influenced by changing factors of modern economies, adjustment of the strategic course is continuously important within numerous opportunities and threats that cross its way (Van der Walt, Kroon & Fourie, 2004:206).

The 2003 South African Global Entrepreneurship Monitor revealed that a high percentage of entrepreneurial SMEs in South Africa are experiencing financial difficulties that could make it vulnerable for failure (Fischer & Wood, 2004:3). The failure rate of SMEs in South Africa is between 70% and 80%. As a result, millions of Rands are being lost on business ventures because of essentially avoidable mistakes and problems.

Difficulties encountered by SMEs can be described as environmental, marketing-related, financial, and managerial in nature (Van Eeden, Viviers & Venter, 2003:13). According to Bornstein (2007:38-39), businesses with less than 20 employees have only a 37% chance of surviving four years and only a 9% chance of surviving 10 years. The Dun and Bradstreet Failure Record (in Bornstein, 2007:39) indicated that "incompetence, unbalanced experience, and a lack of managerial experience create problems in areas such as operating expenses, receivables and inventory management" (Bornstein,

2007:38). SMEs have been rather slow in adopting tools and techniques to help businesses adapt to changed circumstances and meet new market challenges. A large number of studies over the past decade have pointed out that SMEs frequently suffer in the management of its product innovation process through a lack of structure (Maravelakis *et al.*, 2006:284).

In many cases, entrepreneurs do not set viable long-term goals and targets, without which the business cannot focus on what is truly important. Even enterprises that do attempt to plan take missteps along the way, such as neglecting to break down the factors that comprise real sources of business revenue, ignoring trend lines, putting together unreasonable forecasts, and making assumptions about markets that are not factually based. The end-result is sales and profit targets that are missed, and eventually, a high probability to come to naught (Diercks, 2006).

Business owners are often so busy putting out fires every day and struggling to stay on top thus believing that there is no time to plan properly (Rademeyer, 2007:72-73). The business world is considered by many to be a dangerous place, where the rules of engagement are foreign (Nel, 2007:38). Critical to success in fast moving and complex business environments are adaption and speed. Speed is one aspect of adaptation. The other aspect is the ability to handle complexity (Lindgren & Bandhold, 2003:4-5). Just like individuals, organisations need constantly moving reference points to keep pace with the changing business environment (Lindgren & Bandhold, 2003:124).

Higher potential ventures do not stay small very long. While an entrepreneur may have done a good job of assessing an opportunity, forming a new venture team, marshalling resources, planning, managing, and growing, a high potential venture is a different managerial game. Difficulties in recognizing crisis signals and developing management approaches compound by the rate of growth itself.

The faster the rate of growth, it seems the higher the probability for difficulty arises - the reason being that various pressures like chaos and confusion and loss of control enter the picture (Timmons & Spinelli, 2004:561-562). The contemporary entrepreneur has to be able to analyse trends as well as to plan for growth. Entrepreneurs will be required on a daily basis to make decisions that require basic knowledge of business.

Without education and knowledge to address issues such as financial management, inventory control, and market research, the chances are high that a new business will not succeed. Some entrepreneurs believe in not having to plan, which means test theory against reality. Literature reveals that poor business management can be the greatest, single cause of business failure. Management of the business encompasses planning, organising, controlling and communicating (Granger & Sterling, 2003:10-14).

Commercial banks are profit-seeking and risk-averse institutions. Banks need to satisfy the institution in respect of the financial stability of enterprises that seek funding from them (Mashiya, 1998:2). To this effect, management procedures of the SMEs that seek funds have to be acceptable and recognised by the commercial banks from which funds emanate. Taking this into account, practices of planning, organising, directing and controlling of the enterprise are some of the key features over which SMEs have control, that indicate its risk profiles to the commercial banks. In view of this, ABSA Business Banking seeks to establish the value of planning within the SME segment.

To research this challenge, people need to know why South Africa is lagging behind when it comes to entrepreneurship, or rather, the ability to create sustainable SMEs. The reason for this study is to determine the role of business planning in SMEs and the extent to which owners/managers of SMEs in the Pretoria East Business banking segment of Absa Bank Limited employed business planning in its businesses.

2.3 LITERATURE REVIEW

2.3.1 Introduction

The study opens with a literature review, prior to the quantitative aspects of the study discussed in detail and findings presented. In an effort to determine the role of business planning in SMEs within Absa Bank Ltd the literature study forms the basis for the construction of the study.

“If you don’t know where you are going, any path will get you there.” True words spoken by The Cheshire Cat in Lewis Carroll’s *Alice in Wonderland*, illustrating the important role business planning plays in determining the degree of success realised by a business. Hormozi *et al.* (2002:755) defined business planning as planning the business on paper, no matter the size or stage of development. The importance of planning, to ensure the success of the business has long been recognised by the majority of managers; however, it often emerges as a sorely neglected activity.

SMEs are a critical element of the South African economy because it contributes to business and employment creation. In 2003, approximately 37% of entrepreneurs in South Africa were necessity entrepreneurs (Orford, Herrington & Wood, 2004:21). This type of entrepreneur usually lacks the required general business skills and resources to create a sustainable business, which could possibly contribute to the low conversion rate in South Africa. Push factors such as unemployment, retrenchments and affirmative action force people to become necessity entrepreneurs just to survive and provide for immediate needs, and could well be perceived as reasons hindering entrepreneurship in South Africa (Maas & Herrington, 2006:12). Ironically, people without proper education are encouraged to pursue self-employment (Foxcroft *et al.*, 2002:27).

Absa Business Banking aims to provide effective and efficient development assistance in a globalised South Africa. This requires a cooperative approach where the bank is willing to invest its private resources to achieve the full transformation that South Africa faces. In return, SMEs are to abide by sound management principles of which planning are a crucial element. Enhancing the competitiveness of SMEs would depend on the application of present-day management methods and business principles that invite quality and success to the table. Practices of planning are some of the key features over which SMEs have control. In view of this, ABSA Business Banking seeks to establish the value of business planning within the SME sector.

2.3.2 Entrepreneurship

Entrepreneurs are business people who are distinguished from others in terms of wealth creation, and an ability to recognize opportunities. They have a vision for the future, driving it into reality (Chell, 2000:73). The entrepreneur is the galvanising force behind the venture – blending opportunity, resources, and the team to produce something new. Entrepreneurs are determined, and committed to a passion to start a successful business (Timmons & Spinelli, 2004:63).

In contemporary economies, definitions of entrepreneurship are certainly a challenge and generic definitions seem outdated. Entrepreneurship is a real time process involving continuous planning across several disciplines. Entrepreneurship is an economic phenomenon worthy of attention from those who smile upon economic growth and particularly those charged with sustaining that growth (Hart, 2003:1).

2.3.3 Business planning

In modern-day business, planning becomes a customary activity for every business. The question remains why so many SMEs still fail, not only in South Africa, but globally. Literature defines planning as a process of thinking about the activities required to create a desired future.

The absence of planning foments crises and produces a vicious cycle of chaos and confusion. Planning provides focus and discipline, and it allows the venture to follow a defined path (Rwigema & Venter, 2004: 250). However, planning, through the eyes of entrepreneurs, seems to be a contradiction in terms - planning deals with order while entrepreneurs deal with new venture creation, inviting along disorder.

A lack of planning is frequently cited as a primary cause of business failure (Timmons & Spinelli, 2004:580). In its efforts to minimize its lending risk commercial banks expect from its business banking clients that reasonable planning and processes be implemented and maintained. Bank procedure requires annual evaluations with updated financial information, including cash flow projections, through a formal review process of all general banking facilities. Not planning for these occurrences could elicit mayhem for SMEs.

Various factors in conducting a successful business confront and influence SMEs more than ever. Literature reveals that firm-based problems are associated with 65% of SME failures that generally refer to planning, leading and control (Ligthelm & Cant, 2003:42-45). Planning is to take the future into consideration by effectively preparing for the impact of the future on the business (Wickham, 2004:153). The capacity to plan is a response to changing circumstances and evolving opportunities.

Changing markets and global competition are reasons why commercial banks are more risk averse than ever before. In an informal interview held with a senior SME credit manager at Absa Bank, Pretoria confirmed that the probability of default and lending risk are higher with new ventures than with established businesses (Blignaut, 2007). To increase the probability of success is to plan the business properly while it is still in the concept stage. Effective preparation includes having specific plans for different circumstances (Cronje, Du Toit, Marias & Motlatla, 2004:52).

2.3.4 Problems experienced by SMEs

Trouble can be created by external factors not under the control of management. However, most causes of failure can be found within business management. Although there are many origins of trouble, the most frequently cited fall into three broad areas: inattention to business level strategy, general management skills, and poor financial and accounting systems and practices (Timmons & Spinelli, 2004:580).

The causes of failure identified could all influence the level of effective business planning to successfully manage SMEs. An informal interview held with an Absa Bank credit manager acknowledges the fact that when SME owners apply for funding the application will be less successful if it seems evident that the entrepreneur lacks managerial skills and that financial projections are substandard, or very often, not even prepared.

Enterprise-based problems are found to be associated with 65 per cent of SME failures (Dockel & Ligthelm, 2002:3). A survey done by Radipere and Van Scheers (2005:402-411) reveals that 90 per cent of respondents believed that business failure stems from a lack of managerial skills and financial problems. The study further revealed that 70 per cent of the respondents blamed financial problems for failure. The findings show that the respondents lack financial skills, record keeping ability, financial planning and budgeting competencies, bookkeeping expertise, business plan writing and credit and risk management (Radipere & Van Scheers, 2005:402-411).

Start-up managers are often overwhelmed by the magnitude of obstacles to start-up and the limits of the resources that are sought. Start-up managers need value-based planning expertise in the form of emotional intelligence, new leadership styles, appreciative enquiry techniques, creativity and innovation, forward thinking and aligned commitment. Start-up managers should be averse to mismanagement as it attracts stress, frustration and could be very expensive; it could even result in business failure.

2.3.5 General management

Potential SME entrepreneurs should be educated in management and entrepreneurial skills before even considering an entrepreneurial career (Naude, 2004:5-9). The absence of general business skills such as competitor analysis, inventory management, debtor control, financial projections and managing cash flow is a huge weakness among many entrepreneurs. Informal interviews held with Absa Bank credit managers in the business banking segment support literature stating that many SMEs suffer because of poor planning and ineffective management practices. The problem with SMEs is that there is a lack of the advantage of special departments that oversee innovation, training and marketing, and other specialized fields (De Groot, Nijkamp & Stough, 2004:107).

Entrepreneurs need to be sufficiently familiar with all functions of the business to make informed decisions. The acquisition of expert management skills takes time and often demands formal education and training. A comment made by a senior business bank credit manager was that there are more reasons to say yes to finance SMEs that have established systems and existing proven processes. South Africa has an inadequate amount of entrepreneurs with business managing qualities, which contribute to low conversion rates of businesses.

A question to be asked is why franchising is seen as low risk business by most, if not all commercial banks that strongly promotes this segment. Credit departments deal with franchise credit granting with much less aggression than normal lending. Reasons debated with Absa franchise department are clear: sound, proven processes, financial models and systems are already in place. The franchisor ensures through regular site visits, entrepreneurial training, monitoring of sales and expenses that the franchisee succeeds. Agreeing that not all SMEs are franchise businesses, it certainly is a system that has proved to be highly successful (Waldeck, 2007).

2.3.6 Strategic management skills

Business planning is considered a strategic management function, which is the process of examining present and future environments, formulating objectives, implementing and monitoring decisions concerning the business's long-term goals, and making action plans (Rwigema & Venter, 2004:195). SMEs see its action plans as sufficient efforts to business planning - an informal process of continuous planning efforts including different disciplines. The benefit of doing planning on a regular basis will more than off-set the time devoted to it. It is important that entrepreneurs have to make time to plan (Connolly, 2007:49). It enables the entrepreneur to plot and manage the future of the business in a proactive way, to approve strategies and oversee performance (Rwigema & Venter, 2004:45). However, in a world where things can radically change very quickly, being dogmatic in strategy is not always realistic. Rather, there is a need to regularly check the competitive environment to see whether the strategy should be amended.

Since SMEs are influenced by changing environmental factors such as political priorities, competitive demands, economic challenges and technological developments, businesses need to adjust its strategic course continuously within numerous threats and opportunities (Van der Walt *et al.*, 2004:206).

2.3.7 Marketing

Marketing planning ensures that current levels of performance are maintained and improved so that businesses perform successfully (Wood, 2006:450). The knowledge of aspects of marketing is important to the entrepreneur (Rwigema & Venter, 2004:46). Changes in the marketplace are constant in the new economy, such as customer needs and competitive forces (Garrison, Noreen & Brewer, 2006:8). It is essential today to not only understand financials but also to know how to attract and retain existing and new customers to increase sales.

The competitive forces that constantly challenge SMEs are much stronger in today's global economy than ever before and planning in this field requires more skills than less. Owners and managers must have knowledge of specific aspects of marketing, including market research, marketing planning, product planning and pricing, sales management and service management (Timmons,1999:250). It is important to know why customers are satisfied or not and the reasons that cause the satisfaction or dissatisfaction (Wickham, 2004:153).

2.3.8 Financial skills

The lack of internal financial management in many businesses is an important issue that needs to be addressed (Orford et al., 2003:31). Research done by the Centre for Innovation and Entrepreneurship based at the UCT Graduate School of Business has found that many SMEs are suffering because of poor financial literacy. The four essential practices identified in the survey were keeping a cash book, accounts records, inventory records and good debtor management. The research found that those entrepreneurs who implemented these four basic financial management practices could reduce cash flow and related financial problems by as much as 60% compared to those who did not implement any of these practices (Firer, 2004:11).

Entrepreneurs need to focus on planning finance and financial reporting. It is important to understand the function of financial statements and make business decisions based upon the evaluation thereof (Cornwall, Vang & Hartman, 2004:26). In fast changing markets entrepreneurs should be able to evaluate an opportunity's profitability, monitor expenditure and cash flow, source funds and generally secure the venture's future. The control of financial transactions, cash and inventory is critical for any business (Broyles, 2003:4-5).

The reliance on accountants to own responsibility for SMEs' financial aspects is no longer acceptable in modern economies. Commercial banks, being risk averse is consistently testing financial skills of potential and existing entrepreneurs that seek funding through either six months' or annual reviews of general banking facilities. During this review period interviews are held with all clients with facilities due for renewal. Aspects such as business managerial abilities and financials skills are then tested to determine the potential probability of default (Blignaut, 2007). The essence of business planning is to secure, and preferably improve the SME's financial position, enabling it to continue well into the future (Bachrodt & Smyth, 2004:61).

2.3.9 Financial ratios

Financial statement analysis is useful both to help anticipate future conditions and, more important, as a starting point for planning actions that will improve the business's future performance (Brigham & Erhardt, 2005:443). Financial ratios are an excellent method for determining the overall performance and condition of a business (Dennis, 2006:62).

Entrepreneurs could use financial ratios as a diagnostic tool to continuously measure performance in SMEs. However, entrepreneurs are too often unfamiliar with the technicalities of how the business is doing, and determining which assets are not performing. Many aren't able to link financial strategy with operational strategy. Studies have shown that information gained from financial ratio analysis can be used as early warning indicators of business failure (Bornstein, 2007:39-40). Financial ratios analysis is a vital part of the successful operation of any business (Anon., 2006b:68).

Commercial banks are known to use financial ratio analysis in all business banking facilities in trying to predict failure. Credit professionals use financial ratios to chart trends in financial performance, and point to potential problem areas that require additional focus. These financial determinants include liquidity ratios, leverage ratios, profitability ratios, and efficiency ratios. All of

these ratios are indicative of the customer's ability to repay debts and the business long-term viability.

2.3.10 Cash flow management

Cash flow and cash is king in entrepreneurial finance (Timmons & Spinelli, 2004:448). A worrying finding from informal discussions held with Absa Business Banking credit managers is that too many entrepreneurs consider profit and cash flow as one. Many are not aware that the difference between profit and good cash flow management can mean the difference between business survival and failure.

Credit and cash flow management, and basic financial management are critical skills to successfully manage an SME in today's global economy (Rwigema & Venter, 2004:46). Lack of cash budgets and projections are the most frequently cited cause of business failure. While some businesses have good financial reporting, others suffer from poor management reporting such as inventory analysis, receivables ageing, sales analysis which are usually late or not produced at all (Timmons and Spinelli, 2004:580).

Informal interviews held with Absa Bank's SME credit managers acknowledge the fact that many SMEs gear up for new sales without looking at the cash flow implications, resulting in overtrading and most often business failure. Credit managers agree that SMEs should focus on its core business, and more regularly and better manage cash flow. Credit managers agree with literature that one of the greatest threats to start-up business is a lack of liquidity. According to the credit managers, the importance of cash flow management in most SMEs is sorely neglected (Blignaut, 2007).

To many entrepreneurs, financial analysis seems intimidating, regardless of the size of the SME (Timmons & Spinelli, 2004: 443-445). Many entrepreneurs rely heavily on accountants to provide this valuable information having very limited knowledge themselves.

2.3.11 Financing

Financing for entrepreneurs in South Africa has attracted increasing attention in both the popular press and academic literature. In many cases, a lack of finance is cited as a reason for business failure and non start-up. Lack of financial support is the second most reported contributor to start-up failure, after education and training (Orford *et al.*, 2003: 17).

There are three core principles of entrepreneurial finance: (1) more cash is preferred to less cash, (2) cash sooner is preferred to cash later, and (3) less risky cash is preferred to more risky cash (Timmons & Spinelli, 2004: 443-445). According to the 2006 GEM report sufficient funding is available; however, it remains difficult to access these funds, especially for start-ups. The new National Credit Act that came into effect on the first of June 2007 made commercial banks even more risk averse. Debt financing for SMEs normally consist of general banking facilities and now more than before will commercial banks generally require collateral to ensure protection in case of default.

Much debate occurs among entrepreneurs about credit applications. According to the Absa Bank credit policy, credit decisions are based on the 'six C's' when considering a request for SME finance (Anon., 2006a).

1. Character - Résumés and references are checked to establish if management has the business experience and skills to successfully manage the business.
2. Credit - Personal and business credit reports are reviewed. This section will also include cash flow projections; it can be seen as the test of financial skills.
3. Capital - What are the contribution of the owners to the total capital requirements?
4. Capacity - This section tests the ability of the entrepreneur and management to operate at a level sufficient to make capital and interest payments.

5. Collateral – Assets are pledged to secure the banking facilities. This requirement will exclude most start-ups; however, banks will loan funds today if the facilities are guaranteed by the Khula Credit scheme - a guarantee scheme supporting start-ups.
6. Conditions - This section evaluates external influences that could affect the business, such as competitors, industry changes and economic conditions.

Absa Bank is with no doubt risk averse and lending to start-ups is deemed higher than average risk. It is therefore of high importance for banks to ensure that entrepreneurs that seeks funding does have the required financial skills and managerial skills to manage cash flow, budgets, manage deviations from budgets, as tools to better manage the business to create profits and free cash flow to repay banking facilities. Forecasting is fundamental to any planning effort especially for SMEs that seek funding (Chase, Jacobs & Aquilano, 2004:497). According to the Small Business Administration too many potentially successful businesses fail because of poor financial planning. Timely and accurate financial statements along with substantiation of assumptions are vital issues (Hormozi *et al.*, 2002:762).

2.3.12 Technology

Technology plays an important role in increasing productivity and wealth creation (Pearce & Robinson, 2005:84). Technology can assist SMEs with financial applications, such as drawing up of budgets, managing cash flow and process management. Absa Bank, as a leader in business banking, strongly relies on its business segment clients to optimally utilize technology. The use of the internet has become increasingly important to successfully manage an SME. Absa Bank has effective tools to help entrepreneurs through business internet banking and related software. This includes various aspects of starting and managing a business, but also measures that can help entrepreneurs to achieve success.

2.3.13 Competitive analysis

In a world of strong market forces and fierce competition to attract new customers and grow market share, entrepreneurs have to investigate competitors. This will enable entrepreneurs to identify the strengths and weaknesses of each competitor (Hisrich, Peters & Shepherd, 2005:221-222). SMEs in today's challenging global environment cannot ignore the influence of competition and the potential implications thereof. An informal interview held with an Absa business banking credit manager confirmed that a SWOT analysis of some sort is non-existent in most, if not in all, applications from SMEs that seek funding (Blignaut, 2007).

2.3.14 Competitive advantage

Competitive advantage needs careful attention, because this is the reason why customers prefer one business over the other, which makes the word 'competition' a threatening one (Lambing & Kuehl, 2003:176). The goal of business planning is to achieve a sustainable competitive advantage over rivals. In today's competitive environment, intangible resources are more likely to produce competitive advantages, because these are difficult for rivals to imitate. This advantage could be enforced through innovation. Innovation is a continuous process and deals with processes, products, services and technology (Brown & Ulijn, 2004:2-4).

2.3.15 The business plan

Most SMEs already have a plan of sorts. The question remains not whether a business needs a plan but rather that the plan needs to be crafted wisely, and be appropriate and practical. The objective of planning in SMEs is to minimize the uncertainty of future events in the pursuit of a goal (Hindle & Mainprize, 2006:7-9). While a good, reasonable business plan could not guarantee success, it can reduce the chances of failure and depends on human elements around it, particularly the process of aligned commitment and involvement (Berry, 2006:1).

According to a research paper by Ling, Petty, Giot & Fakharian (2006), there are two primary goals of a business plan. The first is external; to obtain much needed funding for start-up and future growth of the business. The second is internal, which is to provide an action plan. In addition, a well developed business plan provides an operational framework that allows the business to enjoy competitive advantages (Ling *et al.*, 2006:4-16). At the same time, failure to plan can be costly. Most experts agree that the value of business planning lies in the planning process itself. A variety of catalysts can lead a business into straits, but the lack of a reasonable plan is often a common denominator (Diercks, 2006). A well developed business plan serves the following four primary reasons (Ling *et al.*, 2006:4):

1. To serve as an action plan for the next 12 months.
2. To serve as a roadmap for the next two to three years.
3. To serve as a performance tool on an ongoing basis.
4. To serve as a business promotions tool.

An informal interview held with Absa franchising is that every accreditation process with the Franchise Association of South Africa (FASA) is accompanied with full disclosure documents and a proven workable business plan (Waldeck, 2007). This is possibly the reason for the worldwide success of franchise business concepts. Absa credit department acknowledges the fact that far too often staff see only written business plans prepared by consultants, evidently not prepared by the entrepreneurs themselves; the plans are too generic, and accompany applications to obtain start-up capital, and never again in the review processes. In South Africa this is worrying and the question is to be researched much more in depth as to what role business plans plays in the success or failure of SMEs. As it seems evident from informal interviews and literature, most SME owners are lacking critical skills to plan and monitor business performance effectively in new global markets.

Entrepreneurs often lack sophistication, thus sinking funding pitches. Someone who can't talk comfortably about the numbers in the business proposal to the bank is communicating a lack of business acumen. Thus planning your business plan's proposal to the credit manager of the bank is also crucial. Planning is everywhere - money follows management. Commercial banks want to see competent business people who have mastered the discipline of business as early as from start-up phase.

2.4 RESEARCH METHODOLOGY

2.4.1 Research design

The research in support of the study consists of a literature study and empirical research.

2.4.1.1 Literature review

The literature review conducted included utilising computer-based research according to the key words identified in the list of key terms. The purpose of the literature review was primarily to provide a scientific basis for the theory, and recognising prior research done on this topic. To determine the role of business planning in SMEs, the author consulted primary and secondary sources to gather appropriate information for a logical analysis thereof. The information was collected from journals, articles, press reports, textbooks and research studies. Topics researched were business plans, business planning, reasons for business failure or success, financial skills, business management, managerial skills, measurements systems, forecasting and other business skills needed to support business planning in SMEs.

2.4.1.2 Empirical research

In confirming and complementing as well as substantiating the literature study findings discussed, the researcher conducted a survey through administering face-to-face and telephonic questionnaires. The population consisted of 108 existing small and medium sized enterprises within the Absa Business Banking segment located in the Pretoria East region, Gauteng. The questionnaire contained dichotomous questions as well as questions that required Likert scale responses. The main areas tested were the level of importance of business planning in SMEs, and the attitude of business owners and managers towards business planning.

2.4.2 Sample frame

Forty eight (48) small and medium sized business owners and managers participated in the survey. The sample was drawn from Absa Business Banking segment of the Pretoria East region, Gauteng. Judgemental sampling was used in a survey that was conducted among small and medium-sized enterprise owners/managers operating within the Pretoria East area. Judgemental sampling involves that researchers use personal judgement in selecting SMEs. Selection to participate in the study was based on the SME being an existing small and medium-sized business banking client within Absa Bank Limited. The original sample size was 108 and 48 questionnaires returned. Table 2.1 presents the characteristics of the participants.

2.4.3 Participants

Respondents' participation in this study located in the Pretoria East region of Gauteng. A total of 70.83% have been trading in this area longer than 42 months. Close corporations (58.33%) and private companies (29.17%) were the most popular forms of enterprises, and most businesses in the sample operated in the retail (38.10%) or professional services (14.29%).

Eighty percent of respondents employed between eleven and fifty employees, and most (47.83%) reported an annual sales turnover between R5 million and R25 million. Seventy seven percent of participants were between the age of forty and fifty-nine years.

Table 2.1 Characteristics of participants

Sector	Ten sectors, namely: professional services, retail, wholesale, IT industry, real estate, travel and tourism, manufacturing, construction, food and restaurant, and transport industry.
Legal status	Six categories, namely sole proprietorship, partnership, close corporation, private company, trust and co-operatives.
Demarcated area	Pretoria East, Gauteng
Age of entrepreneur	Five age categories namely -29, 30-39, 40-49,-50-59, 60+ represented the variable.
Education	Two categories namely graduate and non-graduate represented the variable.
Annual sales turnover	Less than R50 million per annum
Number of employees	Less than 50 full-time employees

2.4.4 Measuring instrument

The four major techniques for gathering data are questionnaires, interviews, observations, and unobtrusive measures. One of the most efficient ways to collect data is through questionnaires (Cummings & Worley, 2005:116-117). In an effort to assess the role of business planning and the influence of firm-based factors as perceived and experienced by SMEs, the researcher developed a measuring instrument in the form of a structured questionnaire. The researcher chose the questionnaire method because of the widespread geographical nature of small and medium sized enterprises in the Pretoria East area.

The researcher made sure that the respondents in the pre-test (version 1) were similar to those included in the actual survey(version 2) in terms of being an existing small and medium business-banking client within the Absa Business Banking segment of Pretoria East region, Gauteng. The pre-test took place during September 2007. After the questionnaire design process, seven respondents in the demarcated area pre-tested the questionnaire. Only minor modifications occurred after the pilot stage. The researcher did the completion of each questionnaire. The completion of each questionnaire lasted approximately 15-20 minutes

The questionnaire consisted of demographic questions as well as questions relating to business planning. The author of the questionnaire appended an introductory letter placing the questionnaire in context for the participants. The confidentiality of the answers was emphasised. The questionnaire contained dichotomous questions as well as questions that required Likert scale responses. The main area tested were the level of importance of business planning and firm-based factors that influenced planning efforts. The questionnaire was in the following format:

- ❖ Questions one to seven posed related to the legal status of the entity, years of trading, industry, number of employees, turnover, the age of the entrepreneur and their qualifications.

- ❖ Questions eight to seventeen determined the extent of the role that firm-based factors played in the perceptions and experiences of SME owners and managers.

2.4.5 Responses

The final data representation consisted of 48 responses, indicative of a 44% response rate. Thirty-seven of the questionnaires were face-to-face interviews (77%) and eleven (23%) were telephonic interviews. The lack of time is a result of the author working full time, and studying on a part time basis is a contributing factor to that only 48 of the 108 questionnaires were completed.

2.4.6 Statistical analysis

Statistical significance tests have a tendency to yield small p -values (indicating significance) as the size of the data sets increase. The effect size is independent of sample size and is a measure of practical significance. It can be understood as a large enough effect to be important in practice and is described for differences in means, for the relationship in two-way frequency tables in this context.

An advantage of drawing a random sample is that it enables one to study the properties of a population with the time and money available. In such cases the statistical significance tests (e.g. t -tests) are used to show that the result (e.g. difference between means) is significant. The p -value is a criterion of this, giving the probability that the obtained value (or more extreme) could be obtained under the assumption that the null hypothesis (e.g. no difference between the populations means) is true. A small p -value (e.g. smaller than 0.05) is considered as sufficient evidence that the result is statistically significant.

In many cases it is important to know whether a relationship between two variables is practically significant, for instance between the number of employees and time spent on business planning. For random samples, the statistical significance of such relationships are determined with Chi-square tests, but actually one wants to know whether the relationship is large enough to be important.

In this case, the effect size is given as $w = \sqrt{\frac{X^2}{n}}$, where X^2 is the usual Chi-square statistic for the contingency table and n is the sample size. In the special case of a 2×2 table, the effect size (w) is given by the phi (ϕ) coefficient (Ellis & Steyn, 2003:51-53). Note that the effect size is again independent of sample size. Cohen (1988) gives the following guidelines for the interpretation of it in the current case:

- ❖ small effect: $w = 0.1$,
- ❖ medium effect: $w = 0.3$
- ❖ large effect: $w = 0.5$

A relationship with $w \geq 0.5$ is considered as practically significant.

2.5 RESULTS

2.5.1 Descriptive statistics

2.5.1.1 Survey participants

As much as 87.50% of participants of the survey were close corporations and private companies (Appendix.2.figure 2.1). This is in line with the sample population from the selected area. Absa Business Banking clients consist mostly of close corporations and privately held companies.

2.5.1.2 Number of active years trading

Percentage wise 29.17% of participants have been trading actively for less than 42 months and 70.83% trading longer than 42 months (Appendix.2.figure 2.2).

2.5.1.3 Industry participants

A sum of 38.10% of participants was from the retail industry, which is in line with the selected population characteristics of Absa Business Banking that does not focus strongly on wholesale business (Appendix.2.figure 2.3).

2.5.1.4 Number of full-time employees of participants

As much as 80.85% of participants have between 11 and 50 full-time employees. This correlates with the legal form of entities that participated; close corporations and private companies normally have more full-time employees in its service (Appendix.2. figure 2.4).

2.5.1.5 Annual sales turnover in South African Rand

Overall, 47.83% of participants indicated annual sales turnover in the last financial year to be between R5 million and R25 million. This is in correlation with participants' characteristics as Absa Business Banking clients (Appendix.2.figure 2.5).

2.5.1.6 Age group of participants

As much as 77.08% of participants were between the age of 40 and 59 years. Zero participants were younger than 29 years of age (Appendix.2.figure 2.6).

2.5.1.7 Qualifications of participants

Overall, 61.70% of participants are graduates and 38.30% are non-graduates (Appendix.2.figure 2.7).

2.5.1.8 Training as key success factor

As much as 93.75% of participants indicated that training is necessary to increase the chances of success in SMEs.

2.5.1.9 Reasons why training is a necessity to support training

Participants mostly indicated that training is a necessity in SMEs to manage the business better in increasing the potential success rate of the business (Appendix.2.figure 2.9).

2.5.1.10 Reasons why training is NOT considered important to support success

The three participants who indicated that training is not contributing to the success all employed between 36 and 50 employees and also indicated that existing skills and relevant experience are more important than training (Appendix.2.figure 2.10).

2.5.1.11 Hours spent on business planning

Percentage wise, 74,46% of participants spend between one and four hours per week on business planning effort (Appendix.2.figure 2.11).

2.5.1.12 Business activities considered before start-up

A sum of 74.47% of participants indicated that financial projections were very important with start-up. It is interesting to note that only 36.17% did consider a business plan during start-up (Appendix.2.figure 2.12).

2.5.1.13 Importance of business activities influencing business planning

Overall, 72.21% of participants considered planning skills, and 72.34% financial skills as of high importance in business management (Appendix.2.figure 2.13).

2.5.1.14 Importance of employee factors to support business planning

As much as 91.67% of respondents indicated that the importance of employee related factors to support business-planning efforts are moderate to high (Appendix.2.figure 2.14 (a)).

2.5.1.15 Importance of strategic factors to support business planning

As much as 96% of respondents indicated that the importance of strategic related factors to support business-planning efforts is moderate to high. It is of high importance to maintain updated records to support the strategic planning process (Appendix.2.figure 2.14(b)).

2.5.1.16 Importance of financial factors to support business planning

So much as 92% of respondents indicated that financial related factors are highly important to support business-planning efforts (Appendix.2.figure 2.14 (c)).

2.5.1.17 Importance of marketing factors to support business planning

Overall, 90% of respondents indicated that customer service in today's business environment is most important to support business-planning efforts (Appendix.2.figure 2.14(d)).

2.5.1.18 Importance of technology factors to support business planning

Most respondents indicated that electronic administrative processes, cash-flow models and internet banking should be technology based to support business planning (Appendix.2.figure 2.14 (e)).

2.5.1.19 Importance of financial ratios to support business planning

A sum of 71% of respondents indicated that financial ratios are of high importance to support business-planning efforts, except for ROA ratios not used often; other ratios mentioned are always used to support planning (Appendix.2.figure 2.15).

2.5.1.20 Regular measurement of cash flow against actual figures

A mere 31% of respondents indicated that cash flows are measured against actual figures at least on a daily basis and 35% at least once a month (Appendix.2.figure 2.16).

2.5.1.21 Regular measure of general business performance against strategic goals

Only 58% of respondents indicated measuring the general performance of the business against strategic goals and objectives at least once a month (Appendix.2.figure 2.17).

2.5.2 Practical significant relationships

2.5.2.1 Relationship between the number of employees and necessity for training

An **effect size of 0.535** reveals that a practical significant relationship does exist between the numbers of employees employed in SMEs and the necessity for training. The participant with less than 35 employees does all consider training to be important, however those with more than 35 employees does not consider training as important as those with less than 35 employees (Appendix.3.figure 3.1).

2.5.2.2 Relationship between the number of employees and time spent on business planning

An **effect size of 0.662** indicates a practical significant relationship between number of employees and the hours spend on business planning efforts. Respondents indicated that where there are less than 10 employees, up to 4 hours are spent per week on planning. The data reveals that respondents employing between 11 and 35 employees spent less time on business planning than business with less than 10 employees (Appendix.3.figure 3.2).

2.5.2.3 Relationship between number of employees and the consideration of strategic goals and objectives before start-up

An **effect size of 0.5866** indicates that a practical significant relationship does exist between the number of employees employed and consideration of strategic goals and objectives to support business planning efforts (Appendix.3.figure 3.3). The data reveals that enterprises with between 36-50 employees consider a business plan before start-up as much more important than smaller enterprises. The 68% of participants with less than 5 employees don't consider a business plan before start-up as not important at all.

2.5.2.4 Relationship between number of employees and the consideration of a business plan before start-up

An **effect size of 0.533** indicates that a practical significant relationship does exist between the number of employees and the consideration of a business plan to support business planning efforts before start-up (Appendix.3.figure 3.4).Enterprises with less than 10 employees indicated that they did not consider a business plan at all or only partially before start-up. Enterprises with more than 11 and less than 50 employees indicated that they did consider a business plan partially or detailed before start-up.

2.5.2.5 Relationship between number of employees and electronic processes to support business planning

An **effect size of 0.6039** is evidence that a practical significant relationship does exist between the number of employees and the use of electronic administrative processes to support planning efforts. Respondents with less than 5 employees indicated that electronic processes are of moderate importance to support business planning. Enterprises with more than 6 employees indicated that electronic processes are of high importance (Appendix.3.figure 3.5).

2.5.2.6 Relationship between number of employees and the importance of debtors' collection ratio

An **effect size of 0.5331** indicates that a practical significant relationship does exist between the number of employees and importance of debtors' ratio. The data reveals that enterprises with less than 35 employees indicated that they often to always use debtor collection ratios (Appendix.3.figure 3.6). Enterprises with more than 35 employees indicated that they seldom to always use debtor ratios to support business planning.

2.5.2.7 Relationship between number of employees and creditor payment ratio

An **effect size of 0.5331** indicates that a practical significant relationship exists between the number of employees and creditor payment ratio. Data suggest that the higher the number of employees employed in the business the more dependent it becomes on financial planning models and ratios to support planning efforts (Appendix.3.figure 3.7). Enterprises with between 6-10 employees indicated that they only sometimes use creditor ratios to support business planning. Other respondents indicated that they use creditor ratios sometimes to always.

2.5.2.8 Relationship between number of employees and stock turnover ratio

An **effect size of 0.6025** indicates a practical significant relationship does exist between the two variables (Appendix.3.figure 3.8). Enterprises with less than 10 employees indicated that it 'seldom to sometimes' use stock turnover ratios to support business planning. A high number of other respondents indicated that they always use stock turnover ratios to support planning in their enterprises.

2.5.2.9 Relationship between number of employees and regular measurement of cash flow against actual budget

An **effect size of 0.6806** indicates a practical significant relation exists between the number of an enterprise's employees and regular measurement of cash flow against actual budgets to support business planning efforts. Data reveal that higher employee numbers does have an influence on business planning efforts (Appendix.3.figure 3.9). 75% of respondents with less than 5 employees indicated that they measure cash flow on a daily basis and respondents with more than 5 employees indicated that they measure cash flow from once a week to quarterly.

2.5.2.10 Relationship between industry and the consideration of a viability study

An **effect size of 0.5543** indicates that a practical significant relationship exists between the type of industry and consideration of a viability study. Data indicates that the retail industry does consider a viability study as important to support planning efforts (Appendix.3.figure 3.10). Respondents from the professional industry indicated all that a viability study is partially important and the retail industry indicated most that it is important to support planning efforts.

2.5.2.11 Relationship between financial projections and industry type

An **effect size of 0.6172** indicates that a practical relationship does exist between financial projections and industry type to support planning efforts. Respondents from the retail industry that is seen by commercial banks as more acceptable lending risk have mostly indicated that financial projections are an important factor to manage as part of their planning efforts (Appendix.3.figure 3.11). The respondents from the technology industry indicated mostly that financials projections are partially important.

2.5.2.12 Relationship between industry type and importance of financial skills

An **effect size of 0.6769** indicates a practical significant relationship does exist between financial skills and the industry type. Professional services and the retail industry are not considered by Absa bank as above average lending risk. This is supported by data that they do consider financial skills as an important factor to support planning efforts (Appendix.3.figure 3.12). The data reveals that the technology industry indicated that financials skills are only of moderate importance.

2.5.2.13 Relationship between industry and debtors and creditors management

An **effect size of 0.7515** indicates that a practical significant relationship between the industry type and debtors and creditors management does exist. Mostly all respondents indicated that debtor and creditor management is important to support business planning. However, the construction industry mostly indicated a moderate importance. The construction industry is considered by commercial banks as above average lending risk (Appendix.3.figure 3.13).

2.5.2.14 Relationship between sales turnover and cash flow management to support business planning

An **effect size of 0.5343** indicates a practical relationship exists between sales turnover and cash flow management. Respondents with turnover between R2.5 million and R50 million all indicated that cash flow management is of high importance to support planning efforts (Appendix.3.figure 3.14). Respondents with less than R2.5 million turnover indicated that cash flow management is of between moderate to high importance.

2.5.2.15 Relationship between the legal form of business and electronic cash flow model as success factor in business planning

An **effect size of 0.5228** indicates a practical significant relationship between the two variables. The respondents indicated that with a more complex form of business a stronger relationship exists with electronic models to support business planning (Appendix.3.figure 3.15). Sole proprietor respondents indicated that the use of electronic cash flow models is of moderate importance, close corporations and private companies indicated mostly all that electronic cash flow models are of moderate to high importance to better manage their businesses.

2.5.2.16 Relationship between legal form of business and how often they measure actual performance against strategic goals

An **effect size of 0.5609** indicates a practical significant relationship exists between the two variables. Close corporations and sole proprietors indicated that they measure actual general performance of the business against strategic goals at least once a month (Appendix.3.figure 3.16). Private companies indicated that they measure actual performance against budgets at least every second week.

2.6 DISCUSSION

2.6.1 Descriptive statistics

The primary objective of this study was to determine the role of business planning as perceived and experienced in small and medium enterprises within Absa Bank Limited. The literature study identified firm-based factors that most influence business planning efforts, and formed the basis for the empirical investigation.

Managerial functions, as described in the questionnaire, generally refer to the task of planning, organising, leading, coordinating and control. Appendix.2, **figure 2.13** confirms that 72.21% of respondents considered managerial skills such as strategic management skills, general planning skills, marketing skills, financials skills, among others, important as a means to support business planning efforts to improve the success of SMEs. Appendix.2, **figure 2.2** confirms that 72% of respondents have been in business for longer than 42 months, which correlates with the fact that respondents have gained business experience to effectively manage the businesses. This is supported by the fact that 87% of participants' legal status was close corporations and private companies - more complex entity types that require more detail managerial skills than sole proprietors and partnerships.

Respondents in possession of a management qualification generally attach greater priority to the execution of management functions. Appendix.2, **figure 2.7** indicates that 67% of participants were graduates and 38% non-graduates and between forty and fifty-one years of age which could be regarded as substantial experience in managerial functions to support business planning efforts. This fact is further supported by 87% of respondents who were either close corporations or private companies that requires more in-depth knowledge to better manage the business. SMEs with a turnover of R5 million or more attached greater importance to management functions being instrumental in success than did smaller enterprises.

As much as 93.75% of respondents indicated that training of employees is necessary to support continuous business planning strategies. Only three participants indicated that more complex businesses training does not contribute so much to their success and that existing skills and experience are more relevant. Appendix.2, **figure 2.9** confirms that 64% of respondents experienced training to positively influence managing efforts in their businesses. As much as 77% of the respondents indicated that they need to know their market; training of staff to support this factor is of high importance.

Data in appendix.2, **figure 2.14(a)** reveal that 91.67% of respondents indicated that employee related factors are important to support business planning.

Financial skills are often cited by literature as a significant issue related to business success or failure. Appendix.2, **figure 2.12** confirms that 74.47% of participants agree that financial knowledge such as financial projections, business plan knowledge, market risk analysis and knowledge of a viability study supports the planning processes. Overall, 92% of respondents experience financial related factors such as debtors; creditors, inventory, and cash flow management as of high importance to support business planning. Appendix.2, **figure 2.13** confirms that 72% of respondents experience financial skills as important to support planning in SMEs. The age of the business reflects its market experience and affects its ability to grow and to move to the next size class. Appendix.2, **figure 2.2** confirms that 70.83% of

respondents have been trading for longer than 42 months; most respondents have moved to private companies that are seen as a more complex entity to manage and require more in-depth business planning efforts.

Marketing factors were perceived by most respondents as being of moderate importance. Taking the individual factors into account, 68% of respondents indicated that a competitive analysis is important to support strategies for planning. Appendix.2, **figure 2.14(d)** confirms that 78% of respondents agree that marketing related factors is of moderate to high importance in managing planning efforts in the selected SMEs. 89% of respondents feel that customer service is a strong driver of business planning efforts in their businesses.

Respondents believe that the management of marketing related factors is of high importance to manage the businesses more successfully. Regardless of industry, all businesses have competitors and marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create business value.

Financial ratio analysis is an excellent method for commercial banks and others to determine the overall performance of the business. Financial ratios were experienced by respondents as being of high importance; 71% indicated that financial ratios support their planning efforts positively. Debtors (75%), creditors (63%) and profit margin (71%) are ratios used most by the respondents (appendix.2, **figure 2.15**).

Considering the fact that 72% of respondents have been trading successfully for more than 42 months, it supports the fact that financial ratios are being used as diagnostic tools to measure performance.

Cash flow management as a planning tool is certainly a critical element of business planning activities. Appendix.2, **figure 2.16** indicates that only 31% of respondents measure cash flow against actual figures on a daily basis and 95% of respondents measure cash flow at least once a month. It is evident that a positive relationship does exist between years of trading, managerial

experience, complexity of legal entity and cash flow management to support planning activities.

2.6.2 Practical significant relationships

The effect size of 0.5866 reflected in Appendix.3, **figure 3.3** indicates that a practical significant relationship exists between the number of employees employed in SMEs and the consideration of strategic goals and objectives before start-up. The data suggest that smaller enterprises tend not to focus so strongly on setting business goals and objectives as larger entities. This can be an indication that the larger the size of the SME the more complex its planning process will be. A practical significant relationship exists between the number of employees and the consideration of a business plan (Appendix.3, **figure 3.4**) with an effect size of 0.533. Another relationship worthy to be noted is between selected financial ratios and number of employees with an effect size of 0.533 (Appendix.3, **figure 3.6**). The results are fair evidence that when a more complex business is planned, the more financial expertise will be required before start-up.

A practical significant relationship exists (Appendix.3 **figure 3.10**) between industry type and consideration of a viability study with an effect size of 0.554. Professional services and retail industry are deemed acceptable lending risk by Absa Bank in correlation with their appreciation for a viability study to better plan their businesses. The IT, construction and restaurant industries feel less appreciative about a viability study and is in fact seen by commercial banks as above average risk. Commercial banks being risk averse feel strong about including a viability study in business planning efforts or least as part of efforts to successfully manage a business.

Another important relationship to mention is the practical significant relationship that exists between annual sales turnover and cash flow management (Appendix.3, **figure 3.14**). An effect size of 0.5343 indicates a strong relationship. With 47% of respondents (Appendix.2, **figure 2.5**) indicating sales turnover of between R5 million and R25 million per year it

signifies that the higher the SMEs turnover the more detailed planning actions will have to be in place to ensure a more successful business.

2.6.3 Summary

The data received resulted in a large pool of information that, due to page limitations, all could not be commented on. Limited comments were made with all figures. Many other practical significant relationships exist between planning variables and firm-based factors. The size of the SME, as measured by sales turnover and number of employees, shows a significant relationship to business planning activities to better manage the business. As SMEs employ more employees, the more they view technological, marketing factors, financial and managerial skills important to support planning efforts.

2.7 RECOMMENDATIONS

2.7.1 Introduction

Planning plays an important role in determining the degree of success realised by an SME. Essential elements to business success are identification of goals, followed by strategies; or rather action plans to achieve these goals. No matter the size, or stage of the business cycle, most, if not all SMEs use business planning to improve probability of success. South Africa offers real opportunity and prospects that are truly exciting and rewarding. But optimism and hope don't produce results; neither does it reduce lending risk for commercial banks, at least, not by itself. Entrepreneurs and business managers need to be absolutely realistic and know what the businesses are up against. Commercial banks could possibly be more considering towards lending and risk management if practical planning efforts for new or existing business lending and cash flow projections with assumptions are better substantiated.

2.7.2 Training and development

Enterprise-based problems are the major cause of SME failure. Literature reveals that these causes are centered largely on the lack of managerial skills, and a lack of financial knowledge. This study suggests that training should not only include administrative and traditional managerial skills development but more in-depth practical training. Business simulation programmes designed to explain business principles and real world scenarios for potential entrepreneurs to experience business planning efforts, should further be researched. Scenario planning and the development of financial acumen and planning skills should be seen as critical elements to be part of the business simulation course. The approach should be practical and not so formal and classroom-based.

Commercial banks are not fond of risk, and the new National Credit Act of 2007 that came into effect on the first of June has reinforced this even further. It is suggested that commercial banks research their support efforts to develop real time training and business development for SMEs, supported by a large pool of knowledge, respected entrepreneurs, entrepreneurial experts and infrastructure they could add great value to increase entrepreneurial success in South Africa.

Literature reveals that generic business plans are obsolete before it even reaches the printers. The question remains to why all commercial banks require generic business plans as proof of planning efforts; nonetheless, so many start-ups still fail in South Africa. The article suggests that potential investors and financial institutions should resist the temptation to request traditional business plans. Investors and bankers should rather require, due to constant changing customer behaviour and global markets, a planning instrument, not a generic business plan, which contains both tactical and strategic elements. It must be amendable to creative change as challenges and opportunities emerge.

It is suggested that this planning instrument be submitted not only for the initial start-up, but continuously thereafter and updated during the annual review process required by commercial banks, especially during the first 42 months after start-up.

Emerging entrepreneurs and non-franchise business opportunities which are considered by commercial banks as above normal lending risk should receive much more support on practical application of business planning issues and real time management efforts.

In this era of irresistible change, planning must be a mutual continuous effort by commercial banks and entrepreneurs, mastering unexpected events through scenario planning practices. This article suggests that a new, dynamic approach be researched forging the future in different scenarios:

- It should allow for enlightened participation of all stakeholders in the SME.
- It must be based on the strengths and weaknesses of the business.
- It has to allow for exploitation of opportunities and confrontation of threats.
- It begs a tolerance for uncertainty, ambiguousness, risk taking and failure.

In-depth future research is needed to create practical business planning models that can be used as guidelines for commercial banks, entrepreneurs, managers, as well as MBA students, to improve the understanding of how a business should operate. Commercial banks for being risk adverse could contribute significantly to this research effort. It is suggested that commercial banks research a practical business plan, coach new and existing business clients how to utilise such a plan effectively and how to submit this planning document annually to review banking facilities but also to better manage the SME with effective control systems that is practical and applicable in the new global economy.

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CHAPTER 3

CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

3.1 INTRODUCTION

This chapter contains the conclusions and recommendations of the study based on the findings of the literature review and empirical study.

3.2 CONCLUSIONS

The following conclusions have been reached on the basis of the empirical research findings contained in this study.

The primary objective of this study was to determine the role of business planning as perceived and experienced in small and medium enterprises within Absa Bank Limited. The literature study identified firm-based factors that most influence business planning efforts, and formed the basis for the empirical study. The sample population, however small yet sophisticated businesses in the Pretoria East area of Gauteng, emphasized that the following factors are of particular importance supporting their planning efforts:

Training related factors:

- ❖ Overall, 93.75% of respondents indicated that training efforts are important to support planning (Appendix 2, figure 2.8).
- ❖ As much as 98% of participants indicated that training is required to better manage their businesses(Appendix 2, figure 2.9)
- ❖ Overall, 64% of participants indicated that constant training efforts are much needed to have more informed and skilled employees in ever changing market behaviour (Appendix 2, figure 2.9).

Financial related factors:

- ❖ Overall, 74% of respondents indicated that financial projections are most important to better manage financial planning issues (Appendix 2, figure 2.12).
- ❖ Overall, 72% of participants agree that financial skills are highly important to support planning of their businesses (Appendix 2, figure 2.13).
- ❖ Overall, 71% of respondents indicated that financial ratio management is highly important to manage business planning effectively (Appendix 2, figure 2.15).
- ❖ As much as 95% of respondents reflect that they do measure cash flow budgets against actual figures least once a month (Appendix 2, figure 2.16)

Management related factors:

- ❖ A mere 58% of respondents indicated that general business performance are measured against actual strategic goals and objectives at least once a month (Appendix 2, figure 2.17).
- ❖ As much as 96% of participants reflect that strategic related factors are of high importance to better manage their businesses (Appendix 2, figure 2.14).

The respondents confirmed that they mostly regard all management and financial factors as important to support business planning. However, literature reveals that many entrepreneurs do not have the necessary skills to manage businesses successfully as in this sample. It is fair to comment that the Pretoria East area is an affluent business environment; the greater challenge will be to research the role of business planning in a larger population, specifically in regions with more previously disadvantaged entrepreneurs.

The results from the survey conclude that several practical significant relationships do exist between selected variables and business planning. Many practical significant relationships discussed in this article are of a large effect size. It will be fair to comment that strong relationships exist between the size of small and medium-sized enterprises and business planning efforts.

Training programmes in business planning and management activities should endeavour to accommodate a more practical approach. Addressing the various issues in general in training material alone is not sufficient. The contents should focus on business simulation efforts and real-time experiences by SMEs research and allow for practical application of concepts. Scenario planning should be included as not many entrepreneurs have this knowledge to anticipate future scenarios to minimise risk and optimise opportunities. Commercial banks, being risk averse have the means to influence these efforts substantially; this could alter the business coaching and training landscape, if this subject is researched properly to enhance practical training to support business-planning efforts in small and medium sized enterprises.

3.3 LIMITATIONS

3.3.1 Limited geographical scope of the study

The study focused only on entrepreneurs in the small and medium business segment of Absa Business Banking Services Pretoria East, Gauteng. This is a limitation in the sense that the findings of the study cannot be taken as a general representation of business planning within SMEs for the rest of South Africa.

3.3.2 Limited sample size of entrepreneurs

The study only focused and based conclusions on 48 SMEs who had participated in the survey.

3.3.3 Limited time to conduct the quantitative survey

The lack of time and financial resources to conduct a more detailed and thorough quantitative empirical study can be stated as another limitation of this study. The lack of time is a result of the author working full time, and studying on a part time basis is a contributing factor to this. The lack of thorough and extensive quantitative research in this study is viewed as a limitation, because the quantitative research contributes differently to the understanding of the entrepreneurial business planning process. Gartner and Birley (2002:387) highlighted the importance of combining both quantitative and qualitative research when they state "it will be rewarding for the study of entrepreneurial process to combine the qualitative and quantitative approach".

3.4 RECOMMENDATIONS

South Africa, though leading the African continent as the most competitive country, has slipped in the Global Competitiveness Index ranks from 36th position to 44th this year, according to the World Economic Forum (Anon., 2007). The global economy, characterized by relentless economic and strong competitive forces has raised the bar for entrepreneurs to trade competitively more than ever before. If SMEs are to stay a force in economic growth and development, it needs to be better endowed in the business sciences to create lasting small and medium-sized enterprises.

Literature often reveals, businesses that utilise business planning, managed by competent entrepreneurs are typically more successful than others are; however, it will not guarantee success. This article demonstrates the importance of business planning and managerial business skills when starting a new venture or managing an existing one.

Commercial banks consider most start-ups and non-franchised business concepts as above average lending risk knowing the fact that most entrepreneurs neither devote adequate time nor take the necessary steps to regularly recap the performance of their business.

This article advises bankers and investors to resist the temptation to research traditional business plans. We challenge commercial banks, practitioners and academicians to further research together and create practical approaches that could be used as guidelines for entrepreneurs, managers, commercial credit managers as well as MBA students, to improve the understanding of how a business should operate effectively through scenario planning and business simulation efforts.

An extended challenge interacts closely to business planning; commercial banks could enforce more control functions during annual review processes. Further research suggested for commercial banks is to jointly research control systems to support SMEs during these review processes to identify potential entrepreneurs that lack business and financial skills and to guide them to understand critical success factors much needed to create sustainable SMEs. Finally, educators and academics who are aware of these findings, can direct their teaching and course development towards addressing specific problems areas. Teaching students and potential entrepreneurs to better understand the anticipated problems when entering the business arena should enhance the chances of business success

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APPENDIX 1

The role of business planning in small and medium sized enterprises within the Pretoria East Business Banking Segment of ABSA Bank Limited

Hello, my name is, I present this questionnaire on behalf of Lourens van Tonder, currently working as a Relationship Executive in the Pretoria East Businesses Bank segment and a final year MBA student at the Potchefstroom Business School.

South African business today faces ever changing and unpredictable macro economic circumstances where fundamentals of economics alone can no longer be used to predict economic up and down turn. Commercial banks are profit-seeking and risk-averse institutions. Banks need to satisfy themselves in respect of the financial stability of the SMEs that seek funds from them; they have to be acceptable and recognised by the commercial banks from which funds are sought. In light of this, practices of planning, organising, directing and controlling of the small and medium enterprise are some of the key features over which SMEs have control, that indicate their risk profiles to the commercial banks. In view of this, ABSA Business Bank seeks to establish the value of business planning within the SME sector.

The purpose of the questionnaire is to conduct a survey regarding the role of business planning in small and medium enterprises. The information will be used to determine the role of business planning specifically in the Business Banking segment of Absa Bank, Pretoria East. This information will be confidential, and will not be used for any other purpose.

These questions will only take 15 minutes of your valuable time. Your contribution will contribute to the body of knowledge that seriously lacks in South Africa.

Signature: Interviewer.....

QUALITATIVE RESEARCH

Indicate with an X which of the following is applicable to the business

1. Indicate the legal form of the business

Sole Proprietor	1
Partnership	2
Close Corporation	3
Private Company	4
Trust	5
Co-operative	6

2. How long has the business been trading?

Less than 6 months	1
6 to 42 months	2
More than 42 months	3

3. Indicate what is the main business activity?

Professional services	1
Retail	2
Wholesale	3
IT industry	4
Real estate	5
Travel and tourism	6
Manufacturing	7
Construction	8
Food & restaurant	9
Transport	10

4. How many full time employees do you have?

Less than 5	1
6 - 10	2
11 - 20	3
21 - 35	4
36 - 50	5

5. Sales turnover in South African Rands the last financial year?

< R1million	1
R1m –less thanR2,5 million	2
R2,5m – less thanR5million	3
R5m - less than R25million	4
R25m - R50million	5

6. What is the business owner's applicable age category?

<29	1
30 – 39	2
40 – 49	3
50 – 59	4
60+	5

7. Indicate which one the following is applicable in terms of skills.

Graduate	1
Non- graduate	2

8. Do you feel that training is necessary for the success of the business?

Yes	1
No	2

9. If Yes, why?

	yes	no
Can better manage the business		
Need to know the market		
Need expertise		
Can better run the business		
Will be more successful		
Other (specify)		

10. If No, why?

	Yes	No
Need existing experience		
Can learn on the job		
Skills are more important than a qualification		
Other (specify)		

11. How much time do you spend on business planning activities?

1 - 2 hours per week	1
3 – 4 hours per week	2
5 hours per month	3
More than 5 hours per month	4
More than 1 day per month	5

12. Before start-up of the business, indicate to what extent were the following aspects considered.

Business activity	Not at all	Partially	Detailed
1. Viability study			
2. Market & risk analysis			
3. Goals and objectives			
4. Strategic guidelines to reach objectives			
5. Financial projections & budgets			
6. Capital budget			
7. Business plan			

13. While managing the business, how important do you consider the following?

Business activity	Not necessary	Low importance	Moderate importance	High importance
1 Strategic management skills				
2 Planning skills				
3 Marketing skills				
4 Financial skills				
5 Project management skills				
6 Time management skills				
7 Leadership skills				
8 Motivation skills				
9 Delegation skills				
10 Communication skills				
11 Negotiation skills				

14. How important are the following factors to support business planning?

Employees	Not necessary	Low importance	Moderate importance	High importance
1 Sourcing of qualified staff				
2 Training of all staff				
3 Direct supervision of staff				
4 Involvement in decisions				
5 Feedback				

Strategic	Not necessary	Low importance	Moderate importance	High importance
1 Setting of business goals				
2 Strategies to manage change				
3 Scenario planning				
4 Vision and mission statement				
5 Maintain updated records				
6 Business plan				

Finance	Not necessary	Low importance	Moderate importance	High importance
1 Debtors management				
2 Creditors management				
3 Inventory management				
4 Cash flow management				
5 Financial projections				
6 Capital budgeting				

Marketing	Not necessary	Low importance	Moderate importance	High importance
1 Market research				
2 Customer service				
3 New product development				
4 Sales management				
5 Competitive analysis				

Technology	Not necessary	Low importance	Moderate importance	High importance
1 Electronic admin processes				
2 Electronic customer base				
3 Electronic cash flow model				
4 Electronic sales management				
5 Electronic/internet banking				

15. Which of the following financial ratios are used to support financial planning?

Ratio	Never	Seldom	Sometimes	Always
1 Debtor collection period				
2 Creditor payment period				
3 Stock turnover period				
4 Return on Asset (ROA)				
5 Profit margin				
6 Cash cycle				

16. How often do you measure the cash flow of the business against actual figures?

Daily	1
Once a week	2
Every second week	3
Once a month	4
Quarterly	5
Other (please mention)	6

17. How often do you measure the actual general performance of business operations against strategic goals?

Daily	1
Once a week	2
Every second week	3
Once a month	4
Quarterly	5
Annually	6
Other (please mention)	7

Thank you for your valuable time.

Name.....

Signature.....Date.....

APPENDIX 2

Descriptive statistics

Figure 2.1: Survey participants

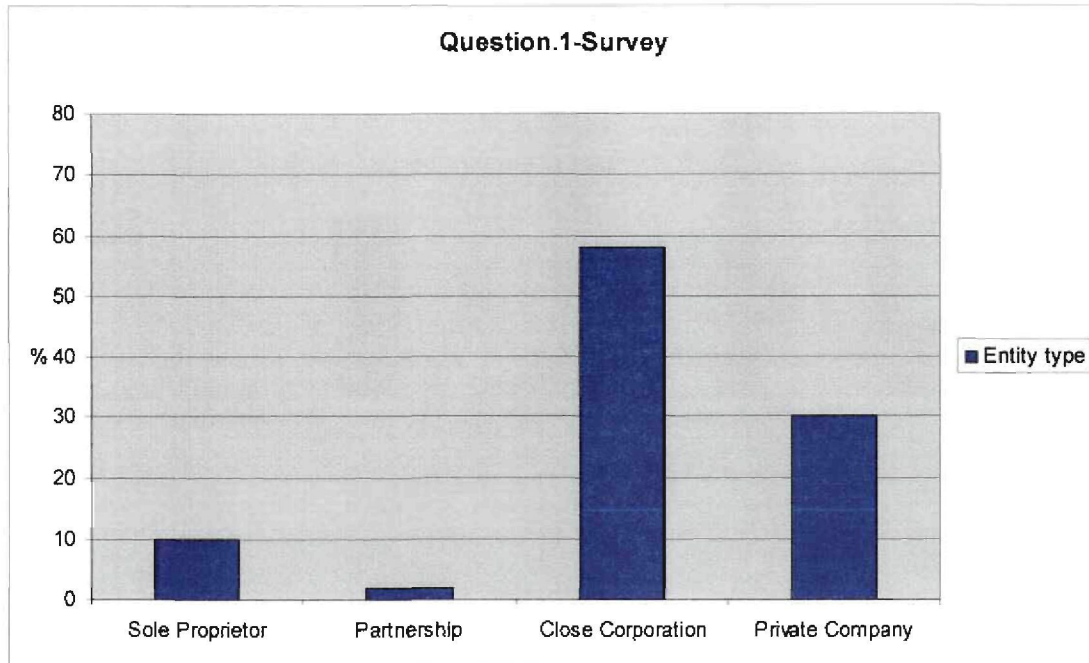


Figure 2.2: Number of active years trading

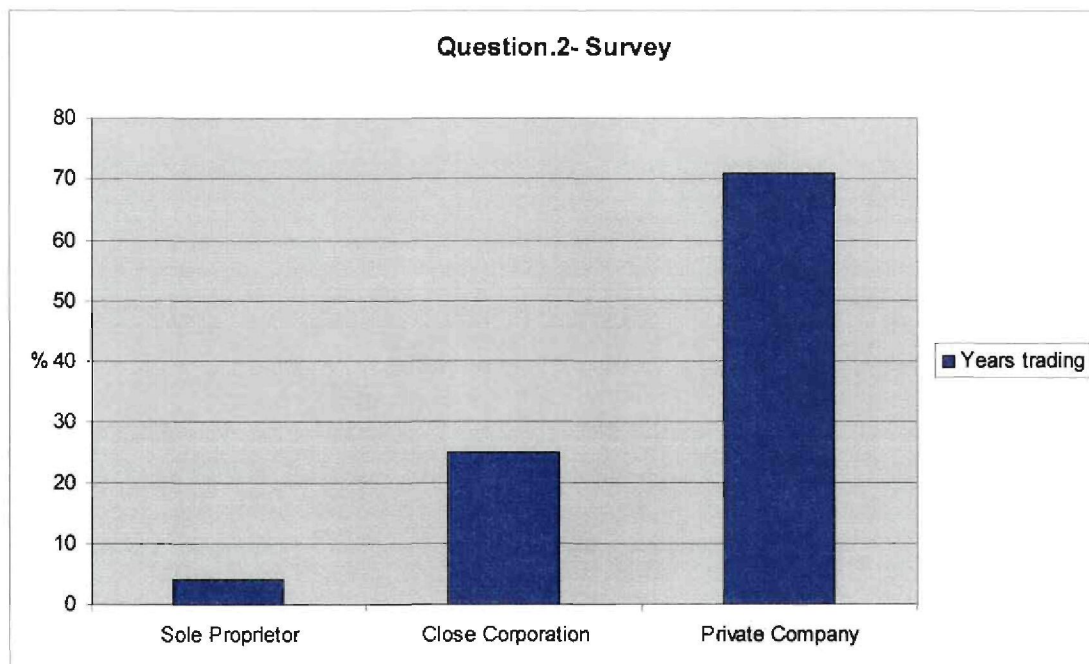


Figure 2.3: Industry participants

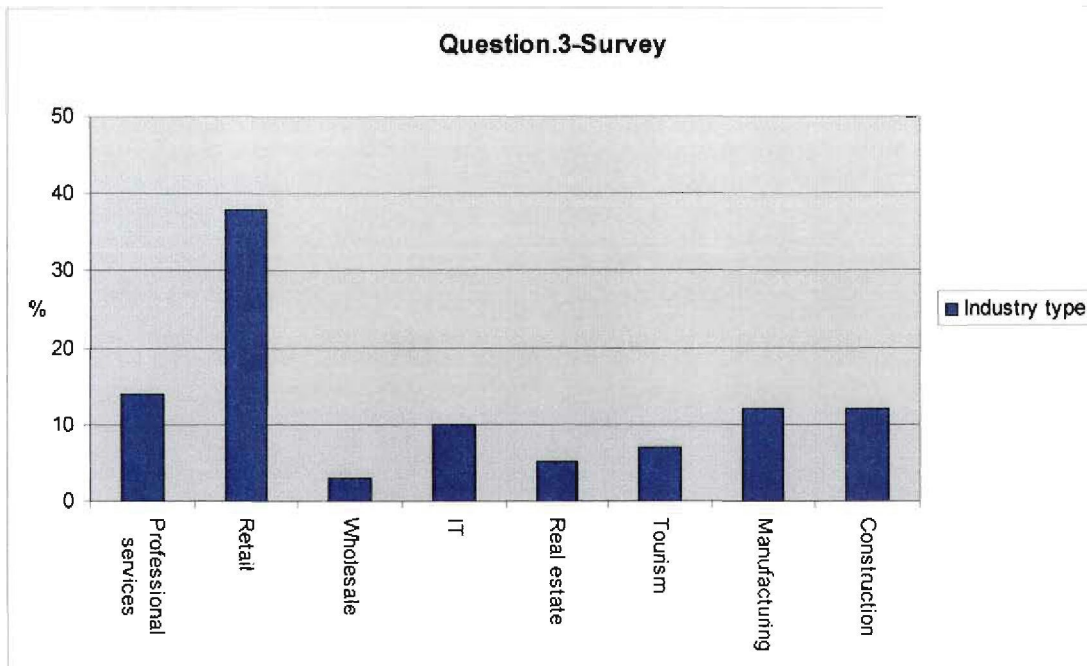


Figure 2.4: Number of full-time employees of participants

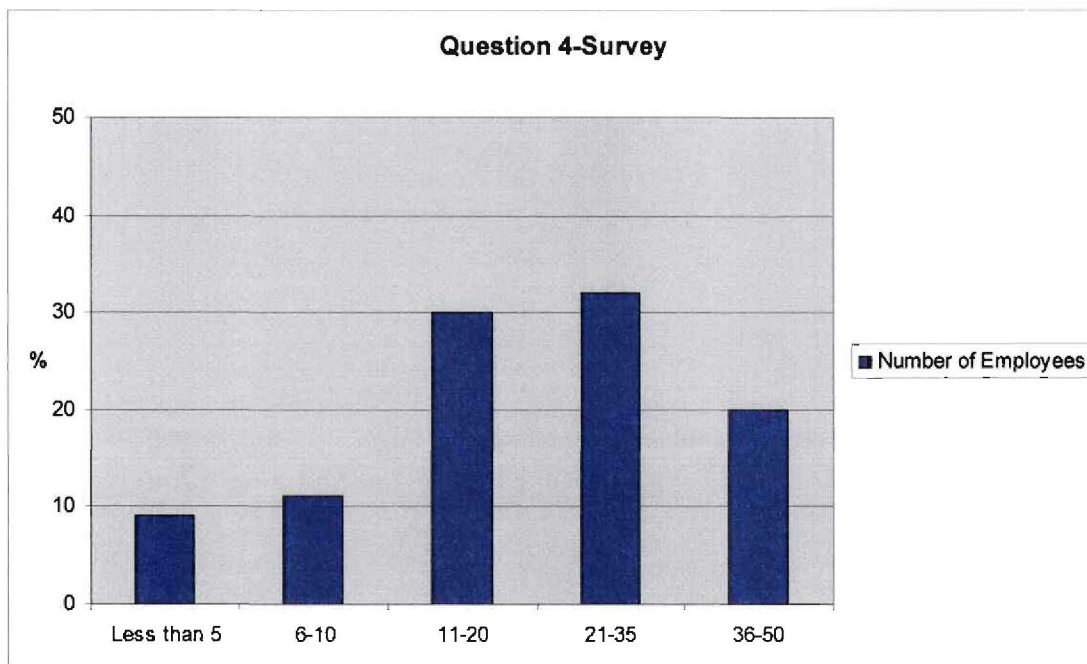


Figure 2.5: Annual sales turnover in South African Rand

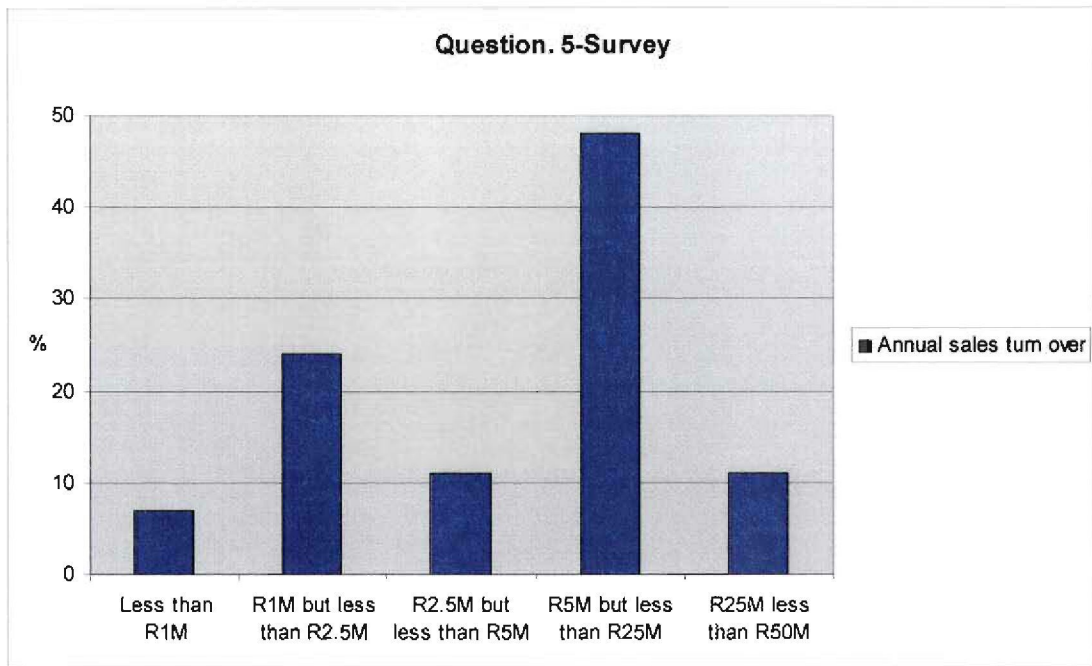


Figure 2.6: Age group of participants

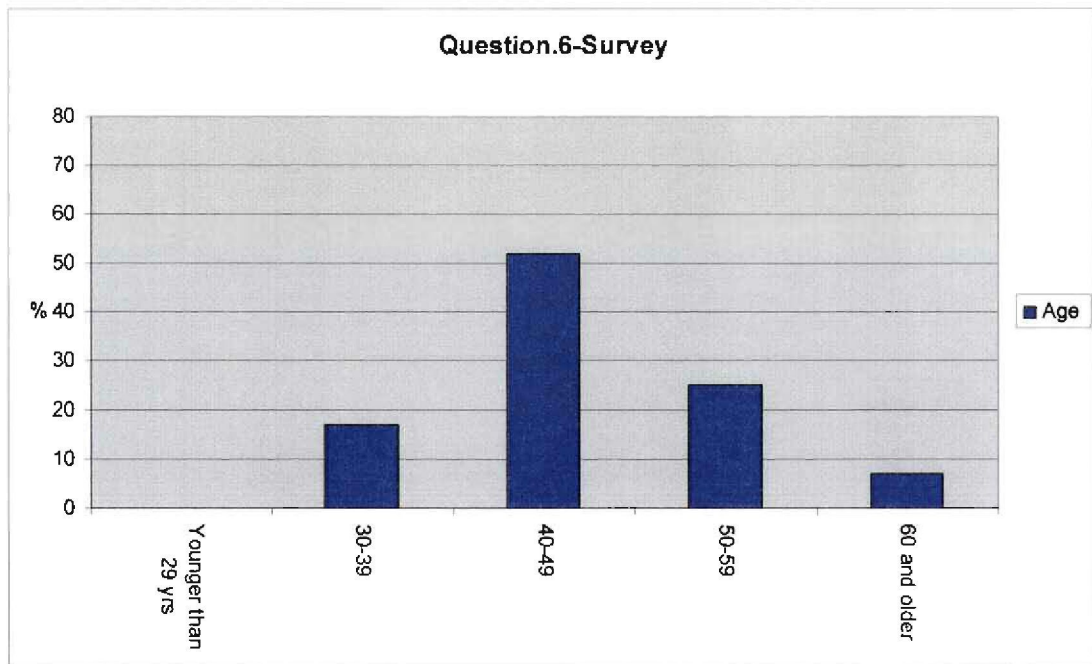


Figure 2.7: Qualifications of participants

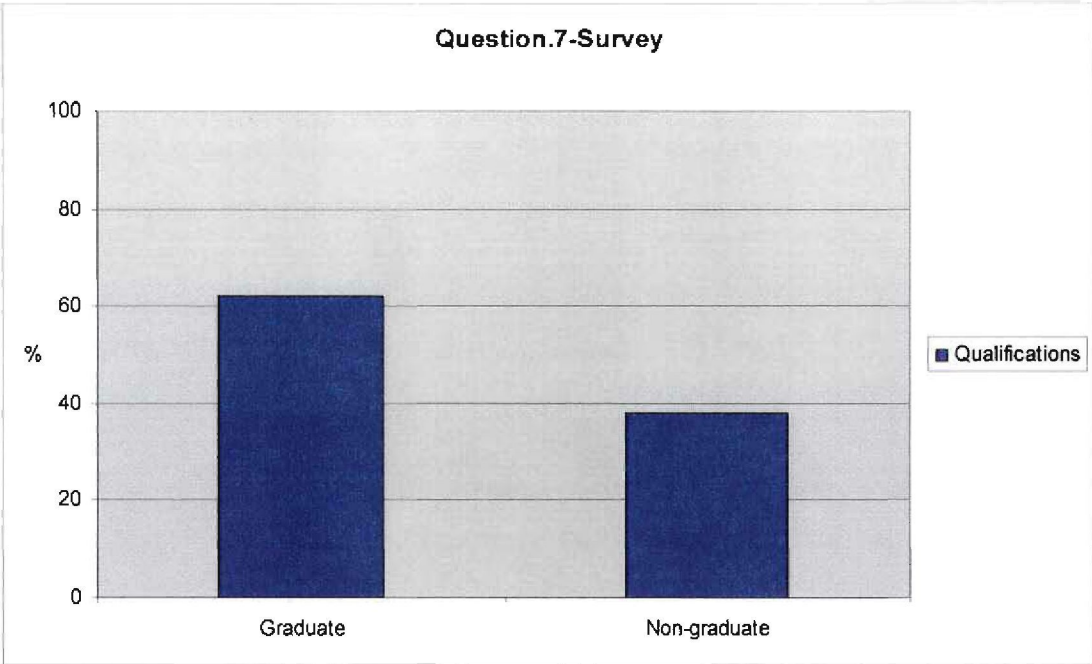


Figure 2.8: Training as key success factor

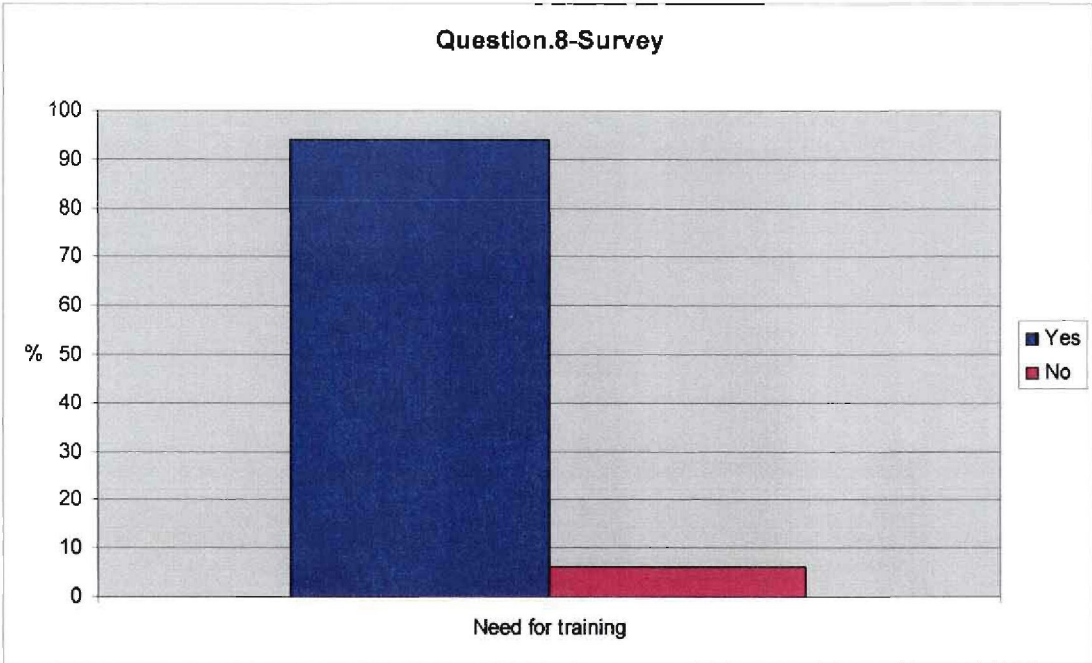


Figure 2.9: Reasons why training is a necessity to support planning

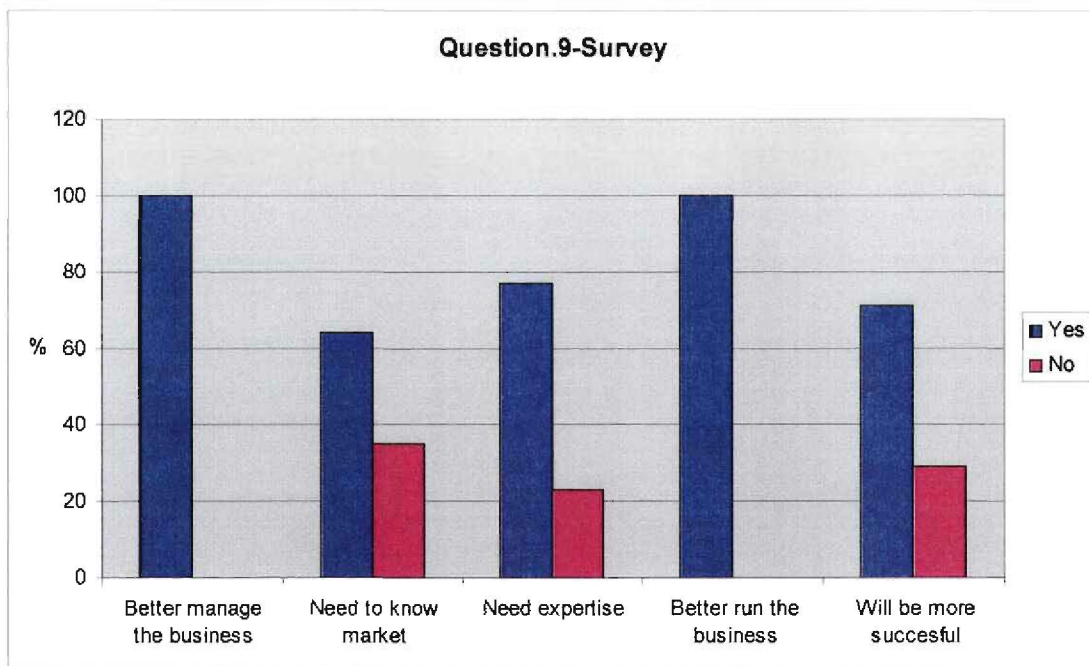


Figure 2.10: Reasons why training are not considered important to support success

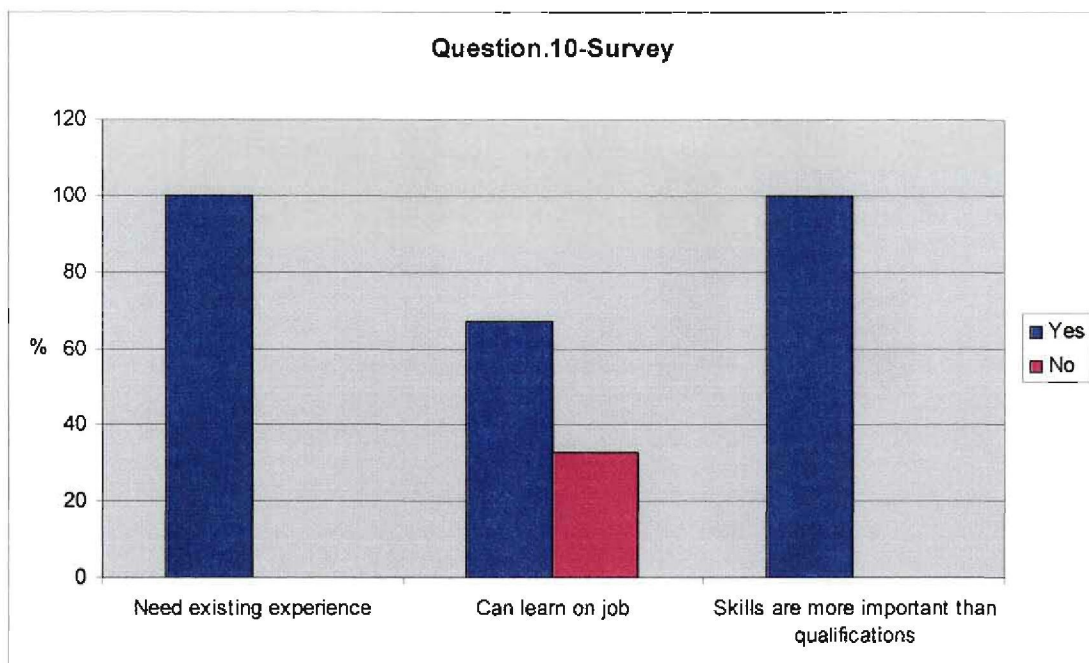


Figure 2.11: Hours spent on business planning

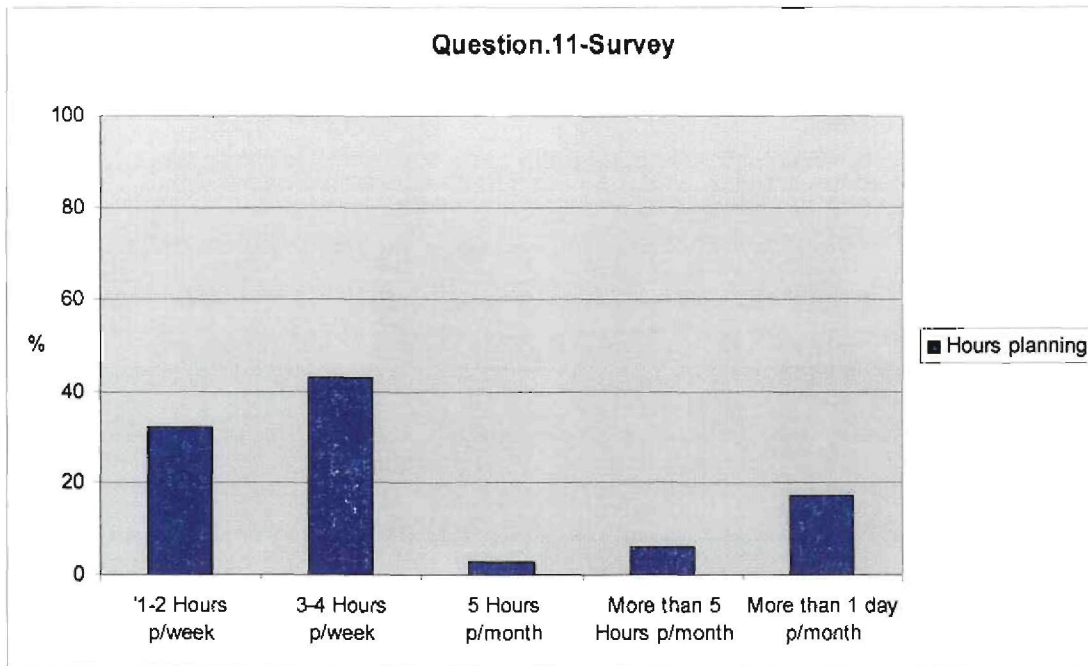


Figure 2.12: Importance of business activities before start-up

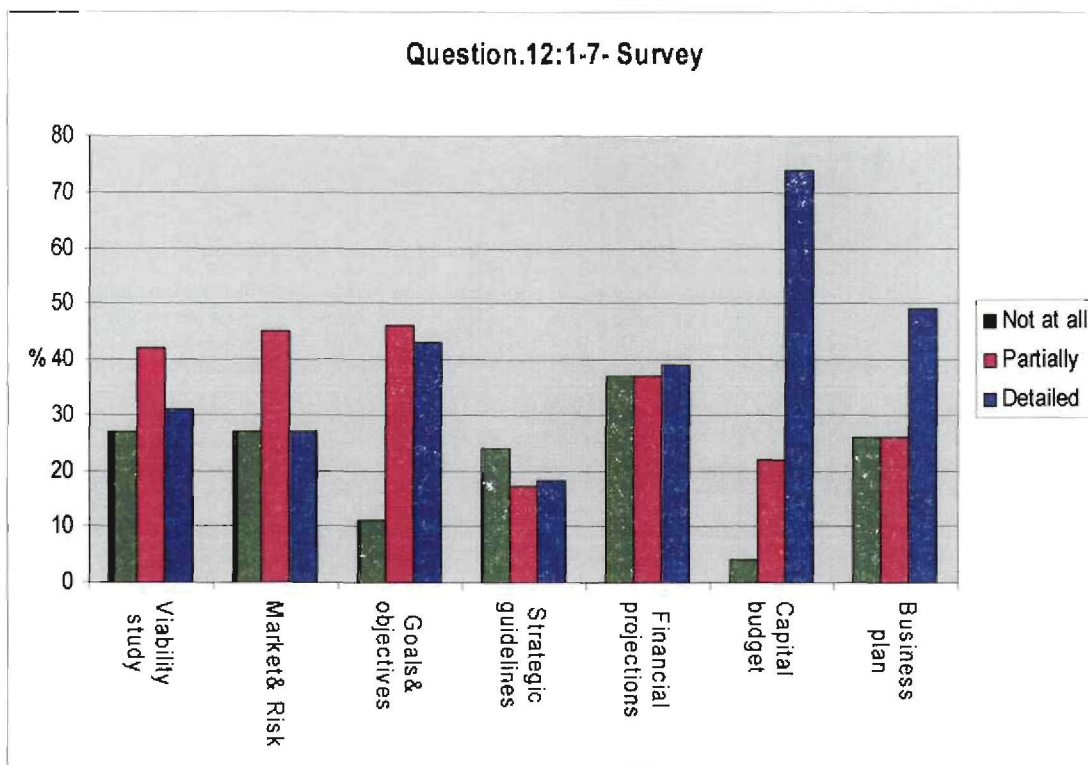


Figure 2.13: Importance of different business activities

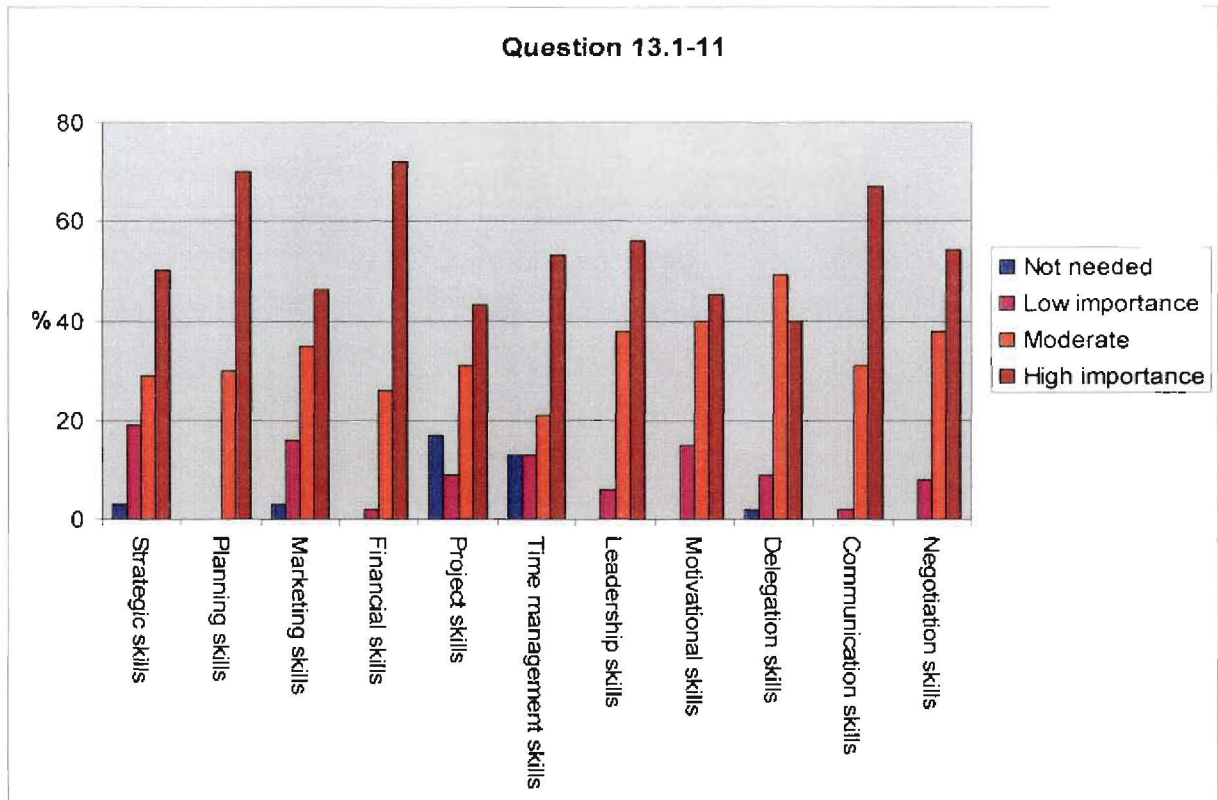


Figure 2.14(a): Importance of employee factors to support business planning

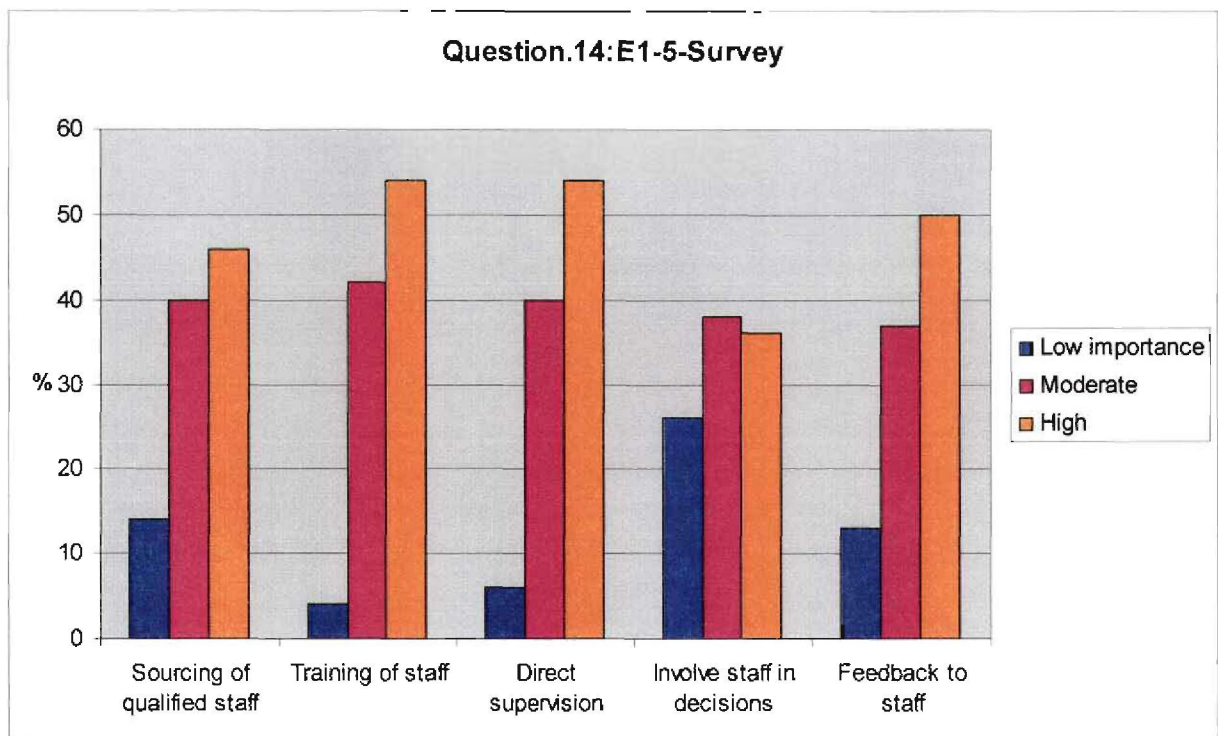


Figure 2.14(b): Importance of strategic factors to support business planning

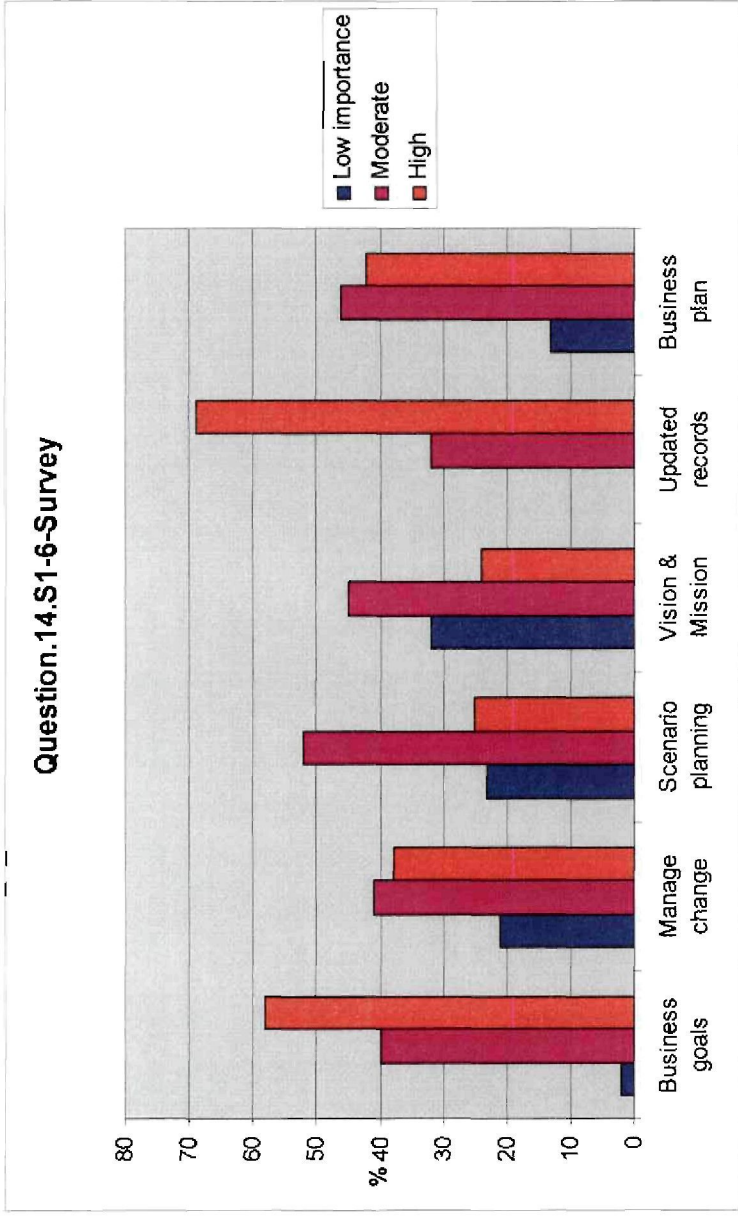


Figure 2.14(c): Importance of financial factors to support business planning

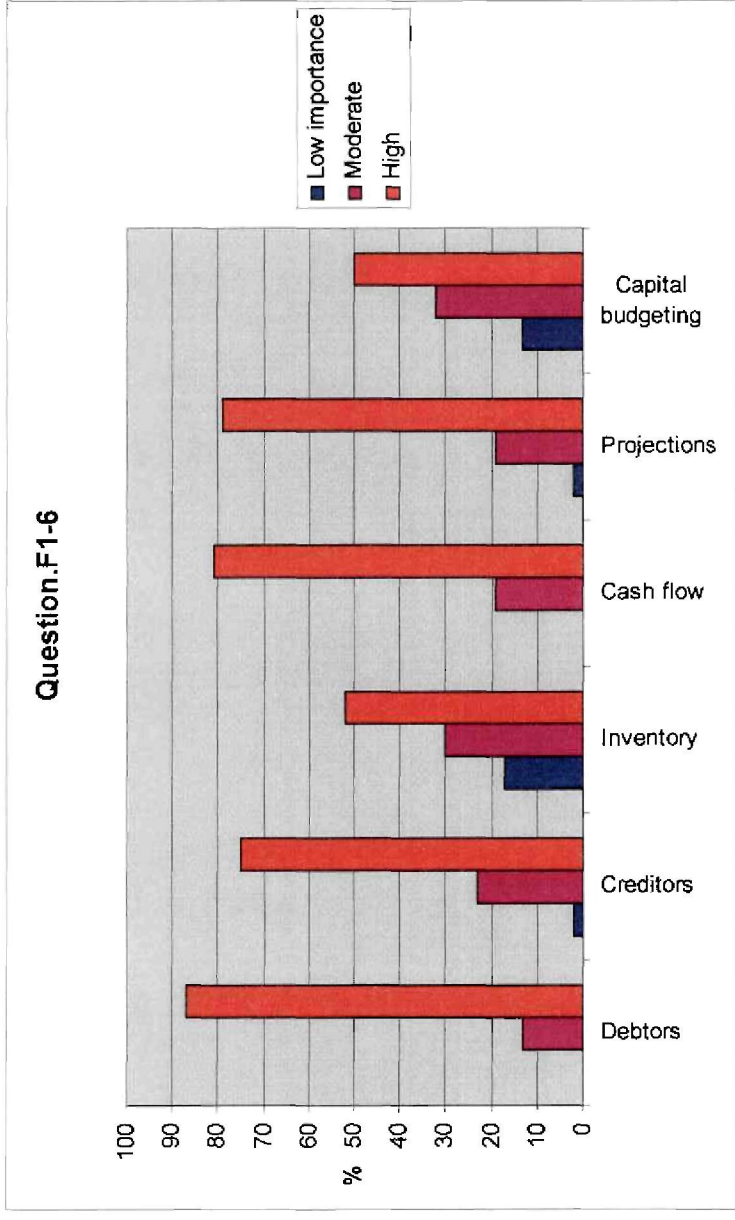


Figure 2.14(d): Importance of marketing factors to support business planning

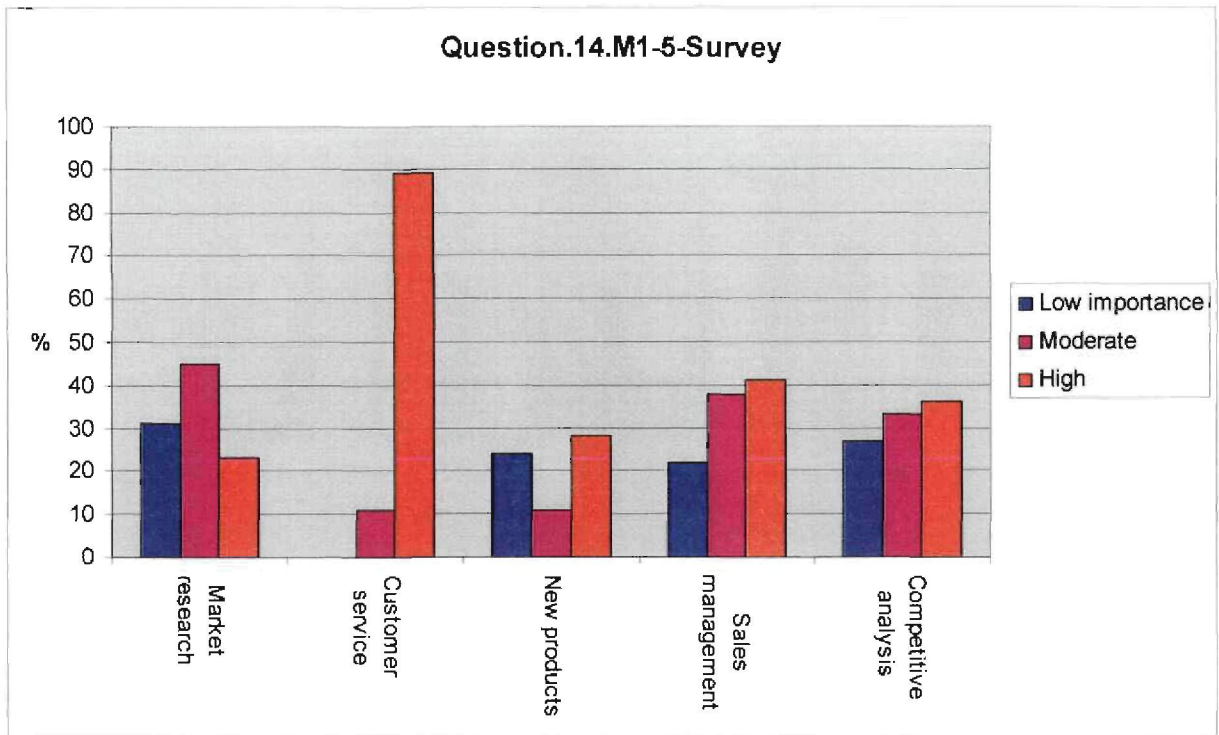


Figure 2.14(e): Importance of technology factors to support business planning

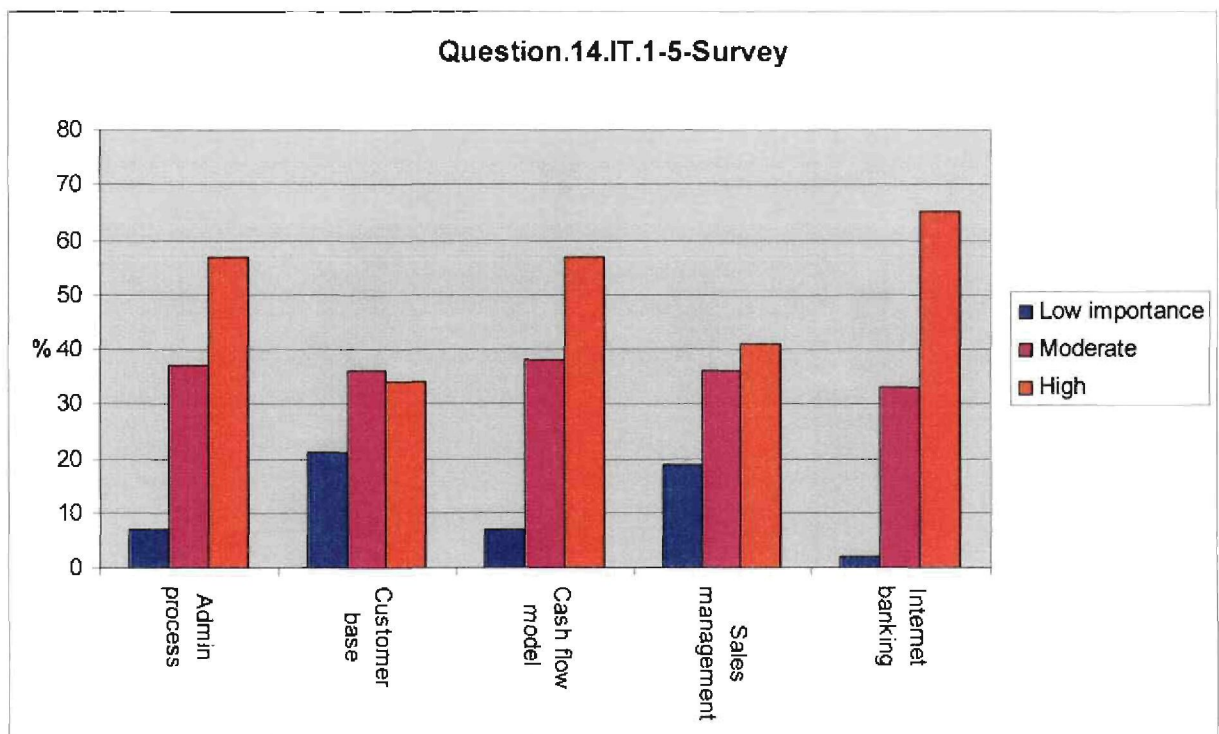


Figure 2.15: Importance of financial ratios used to support business planning

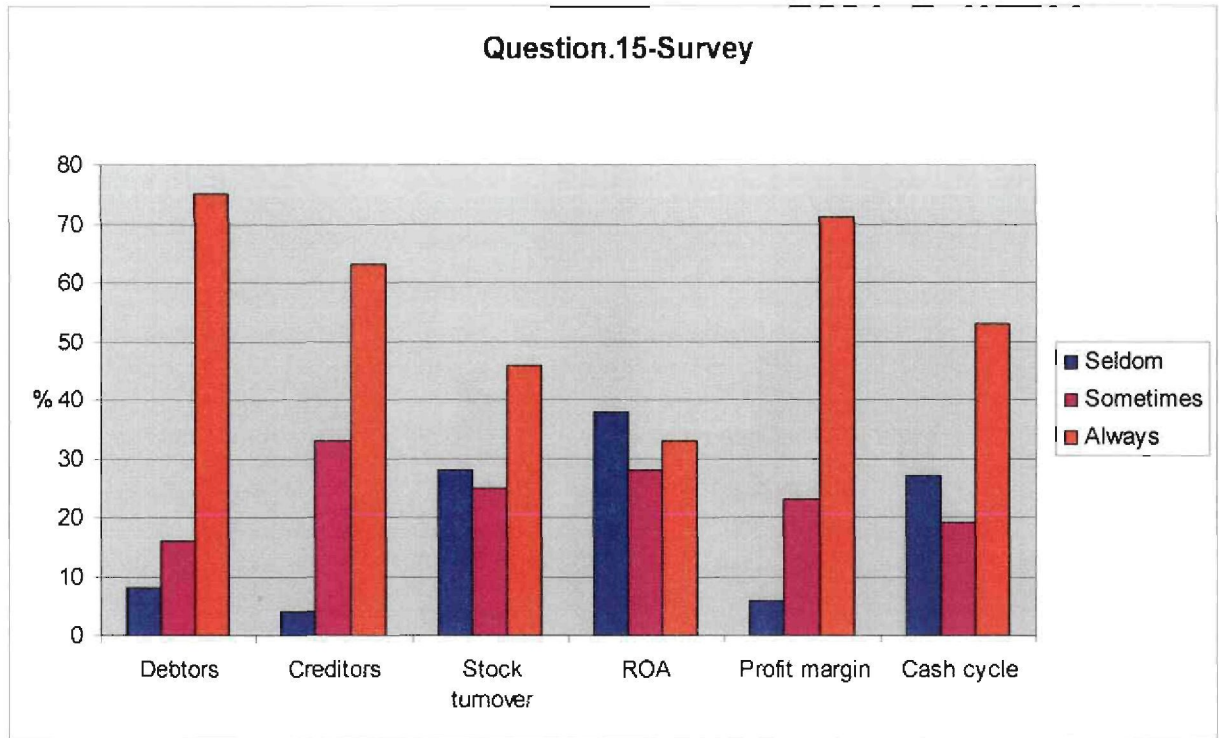


Figure 2.16: Regular measurement of cash flow against actual figures

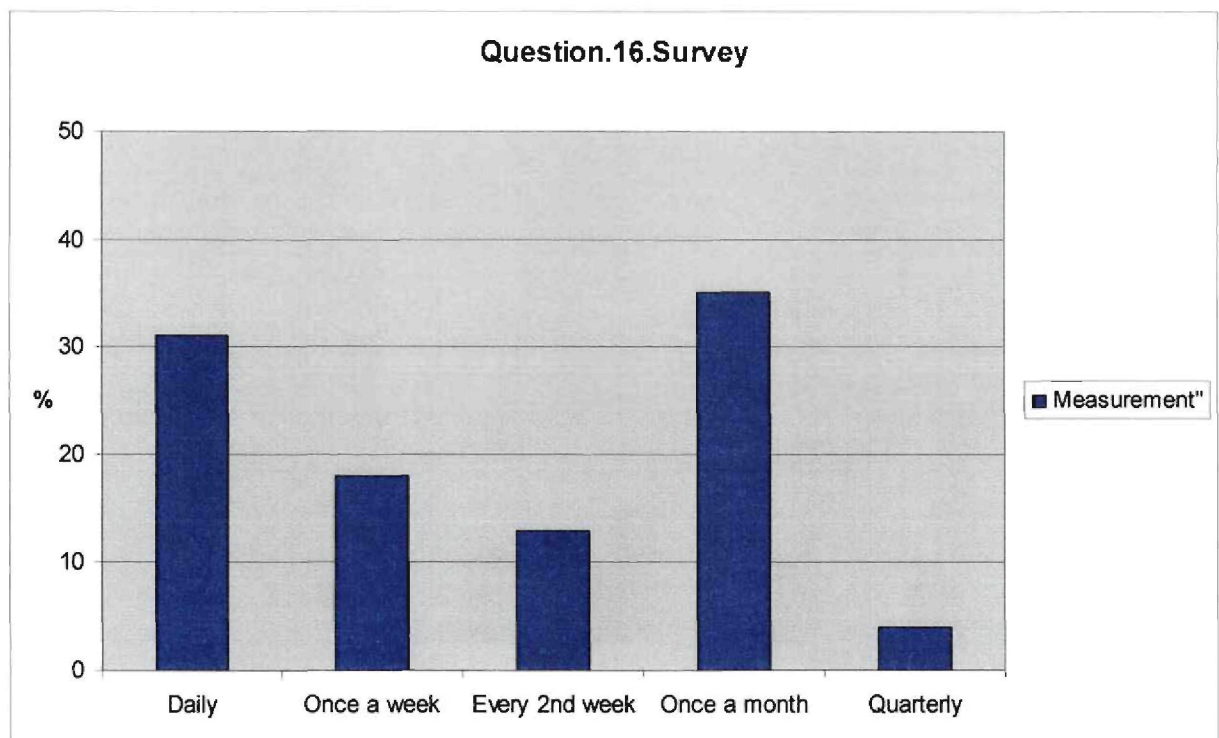
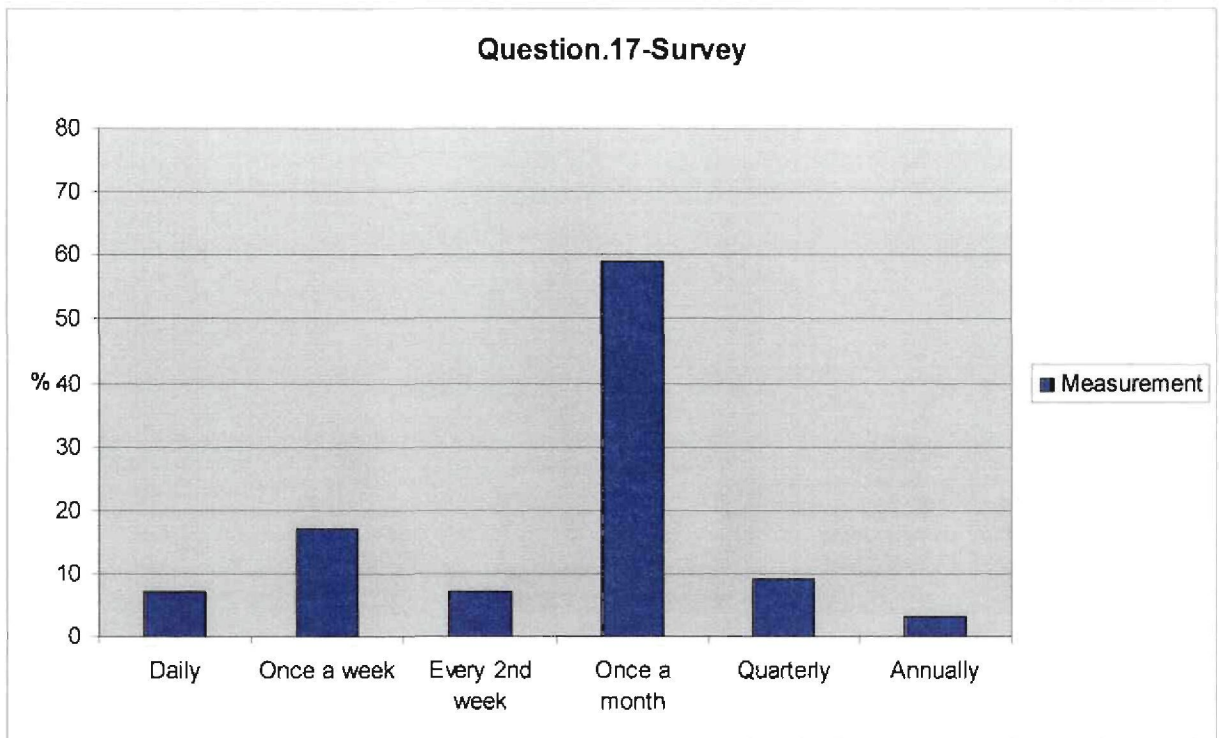


Figure 2.17: Regular measure of general business performance against strategic goals



APPENDIX 3

Practical significant relationships

Figure 3.1: Relationship between the number of employees and necessity for training

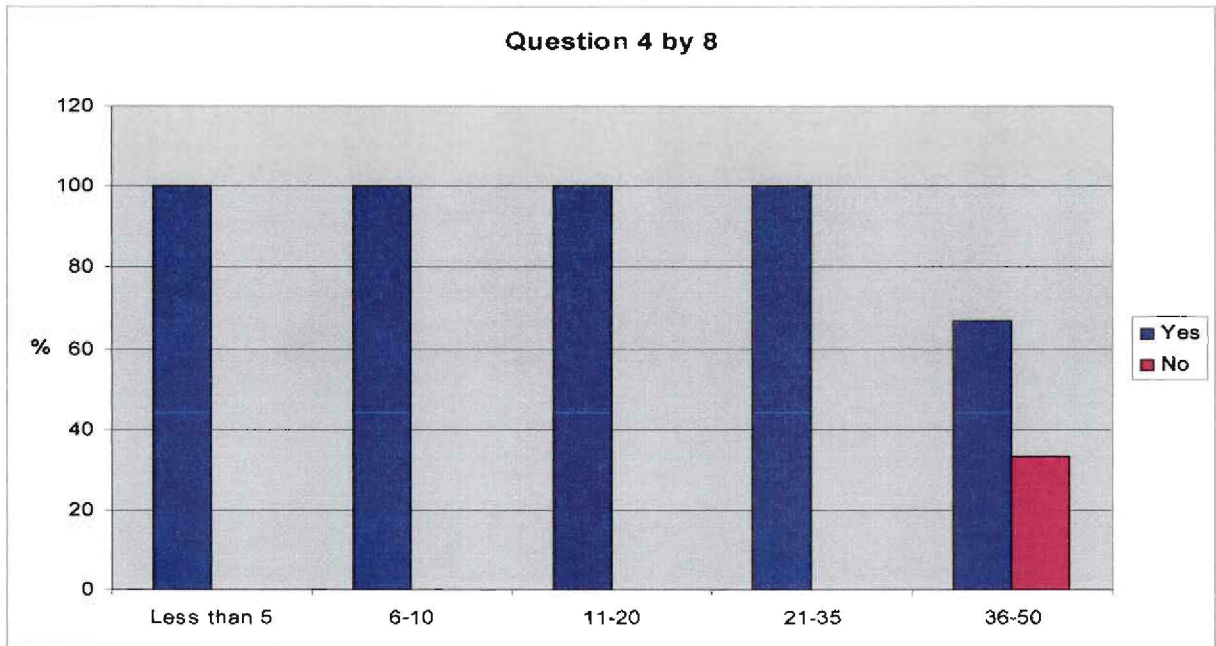


Figure 3.2: Relationship between the number of employees and time spent on business planning

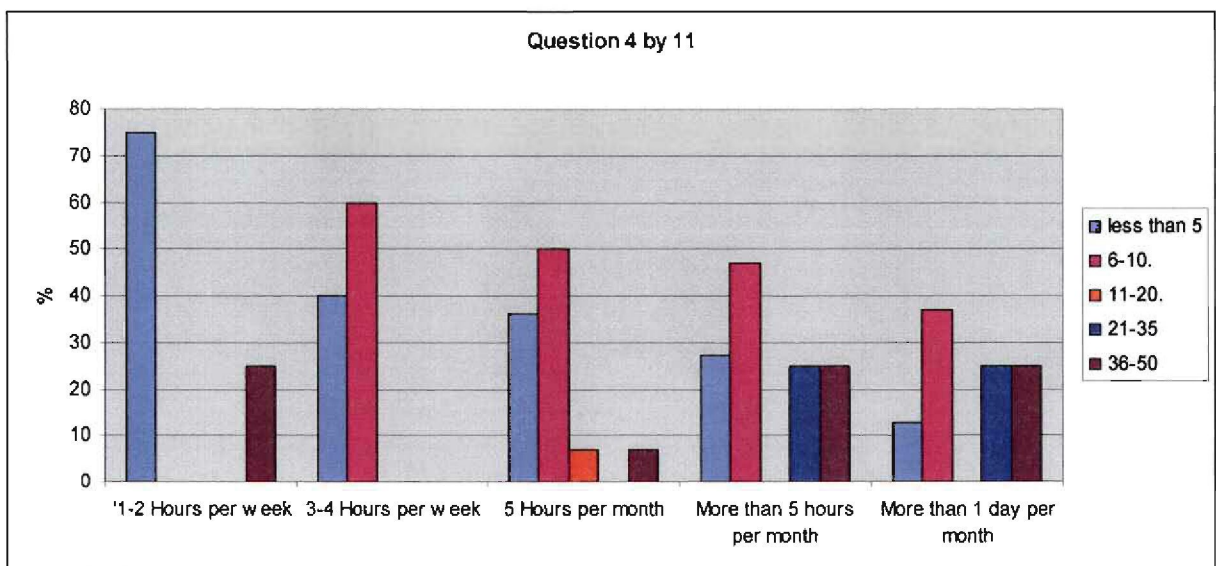


Figure 3.3: Relationship between number of employees and the consideration of strategic goals and objectives before start-up

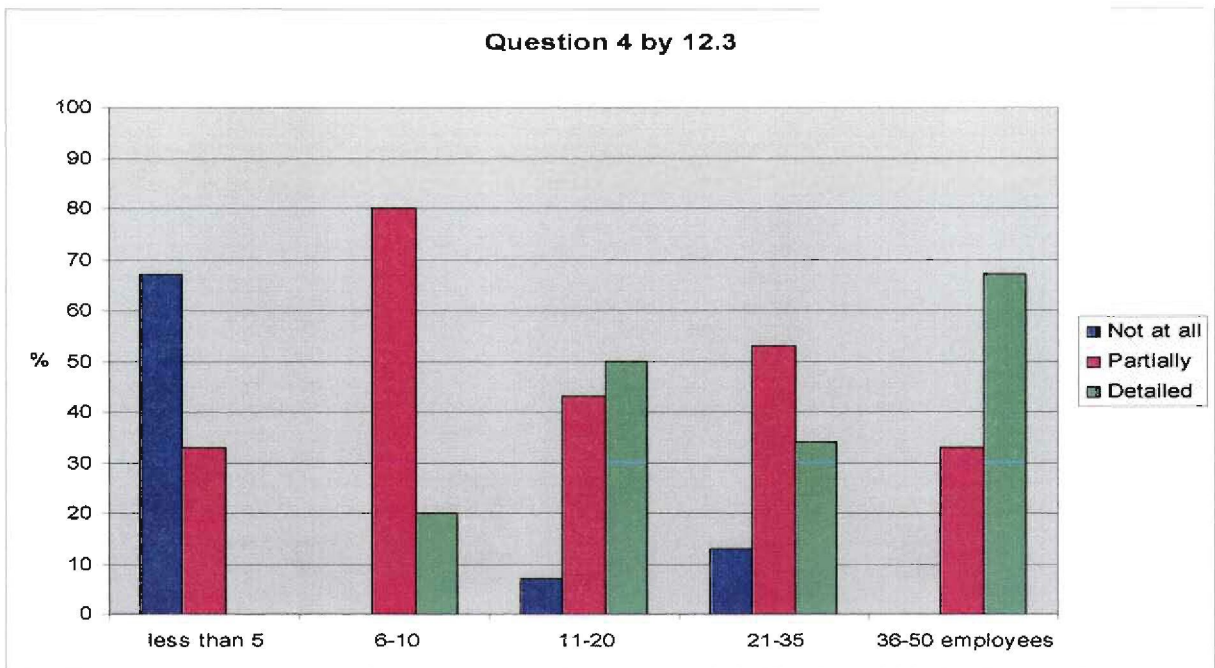


Figure 3.4: Relationship between number of employees and the consideration of a business plan before start-up

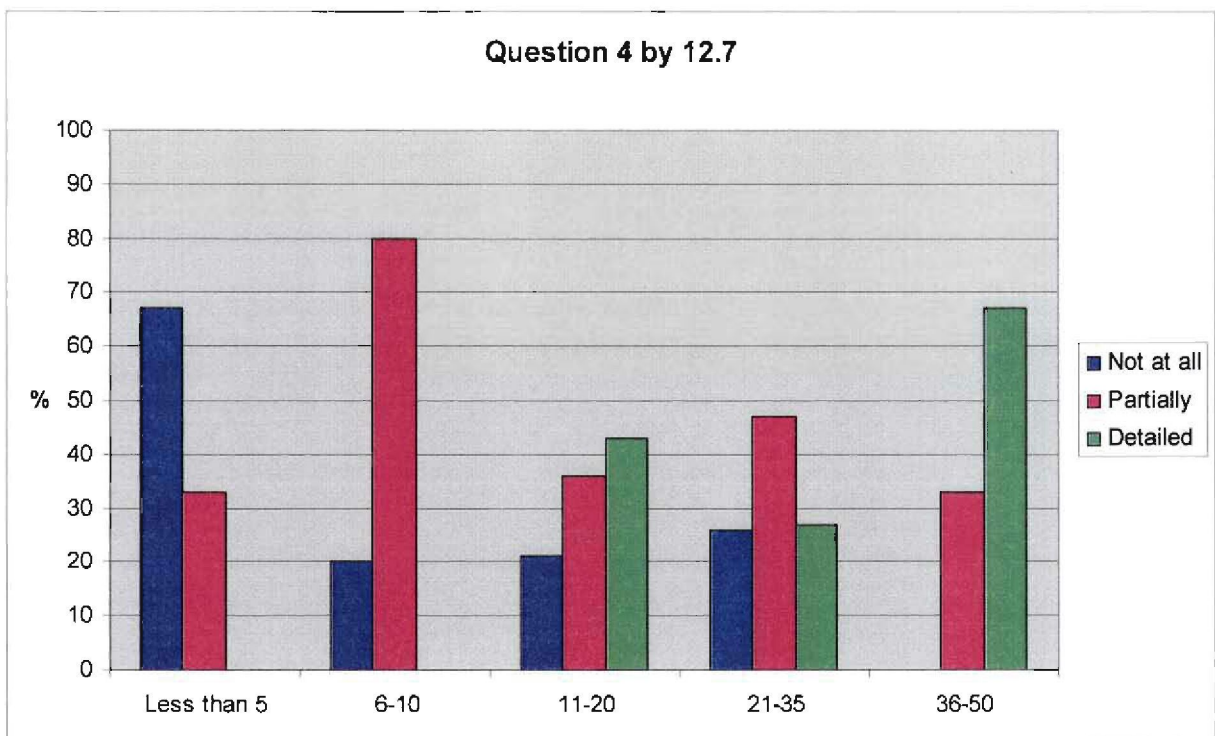


Figure 3.5: Relationship between number of employees and electronic processes to support business planning

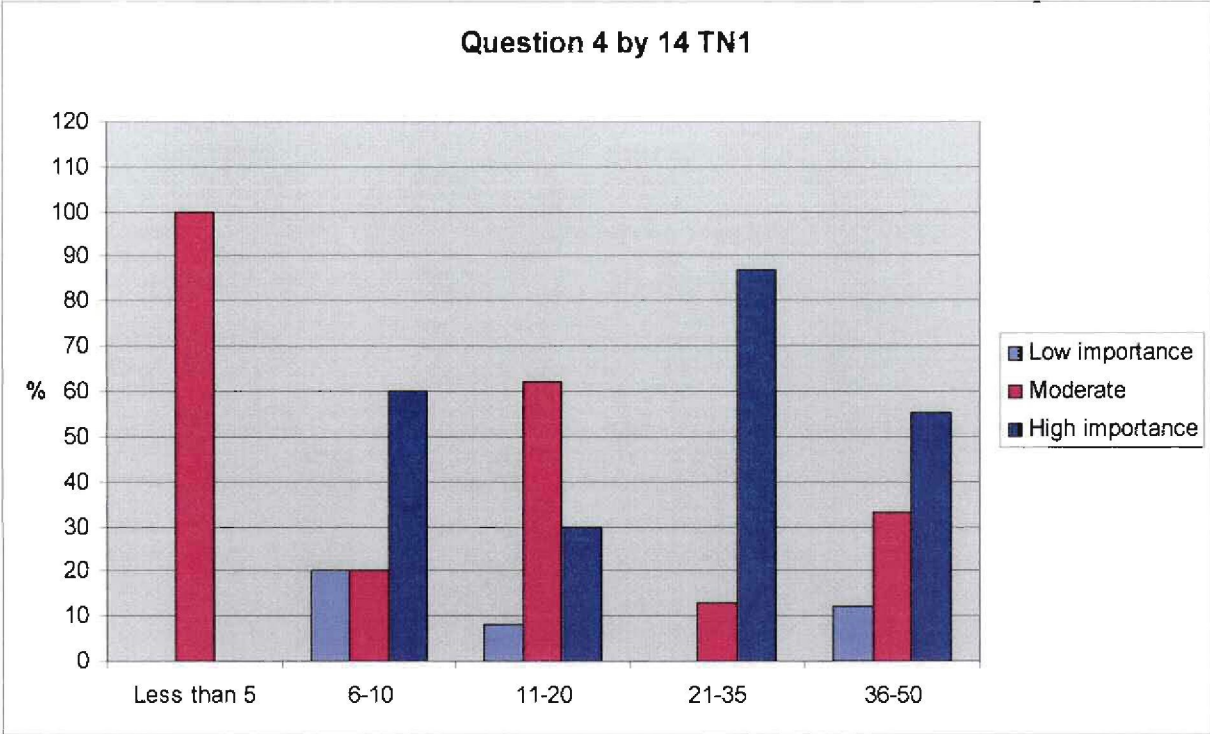


Figure 3.6: Relationship between number of employees and the importance of debtors' collection ratio

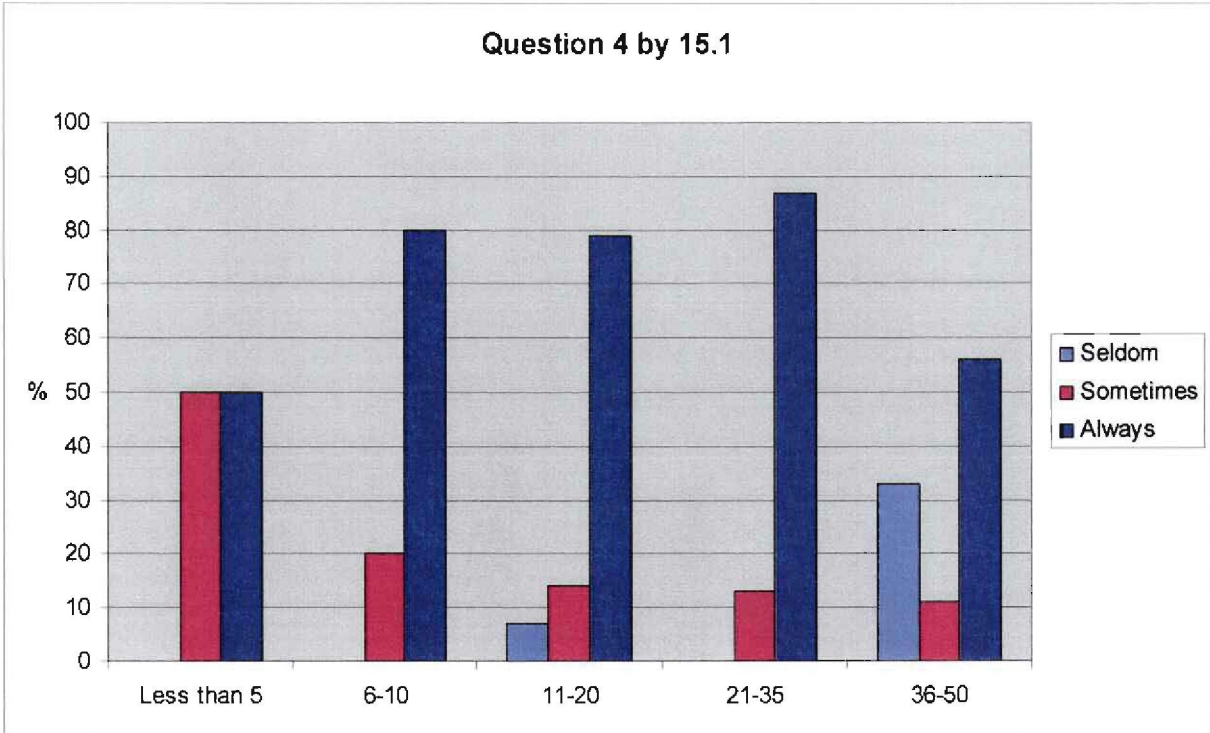


Figure 3.7: Relationship between number of employees and creditor payment ratio

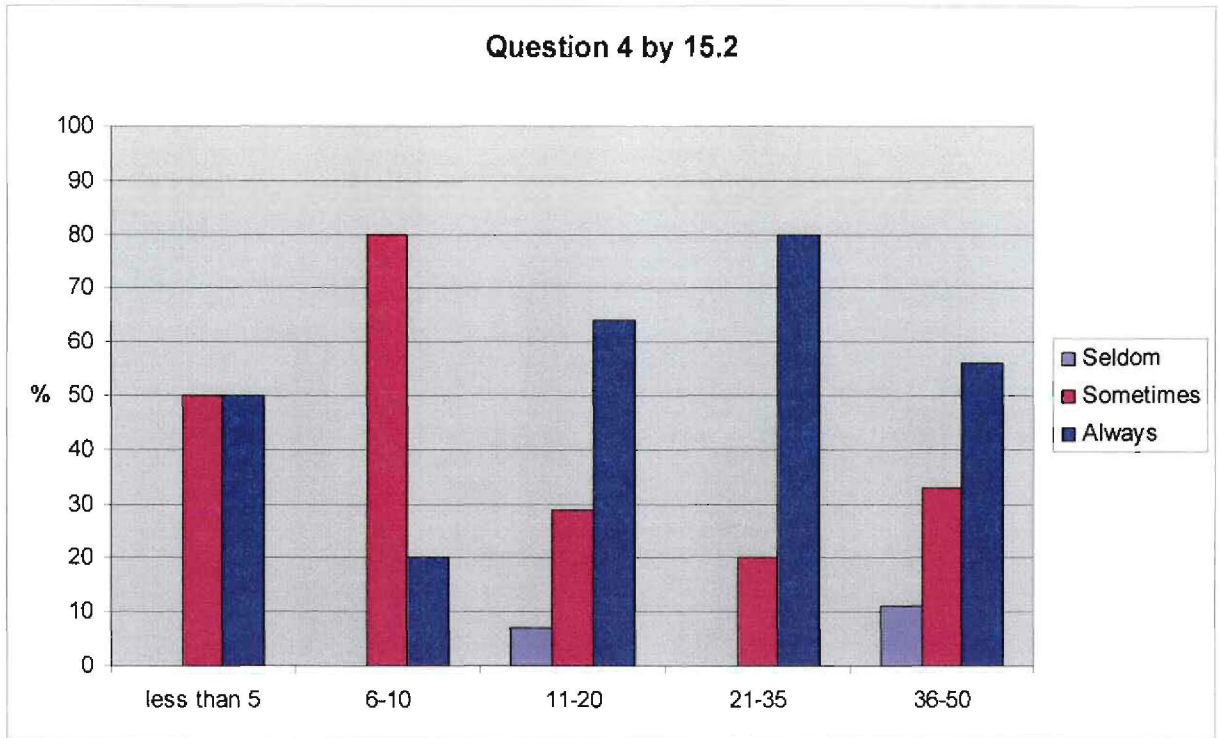


Figure 3.8: Relationship between number of employees and stock turnover ratio

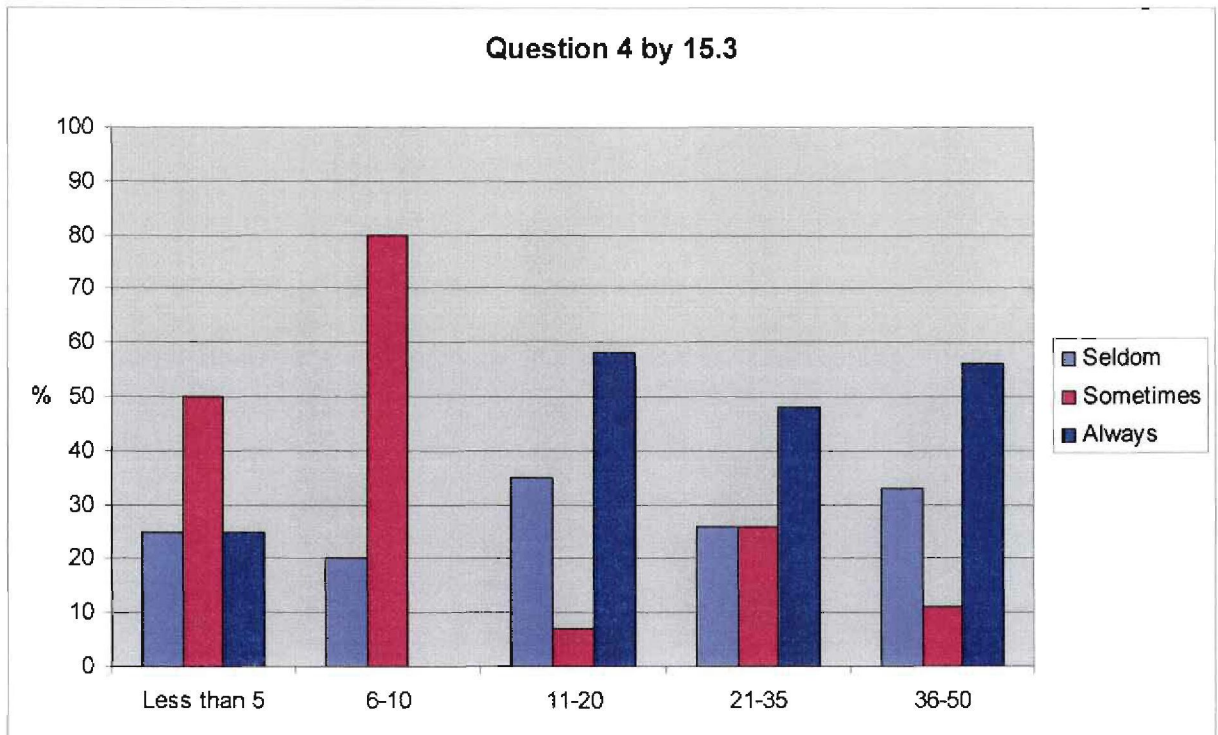


Figure 3.9: Relationship between number of employees and regular measurement of cash flow against actual budget

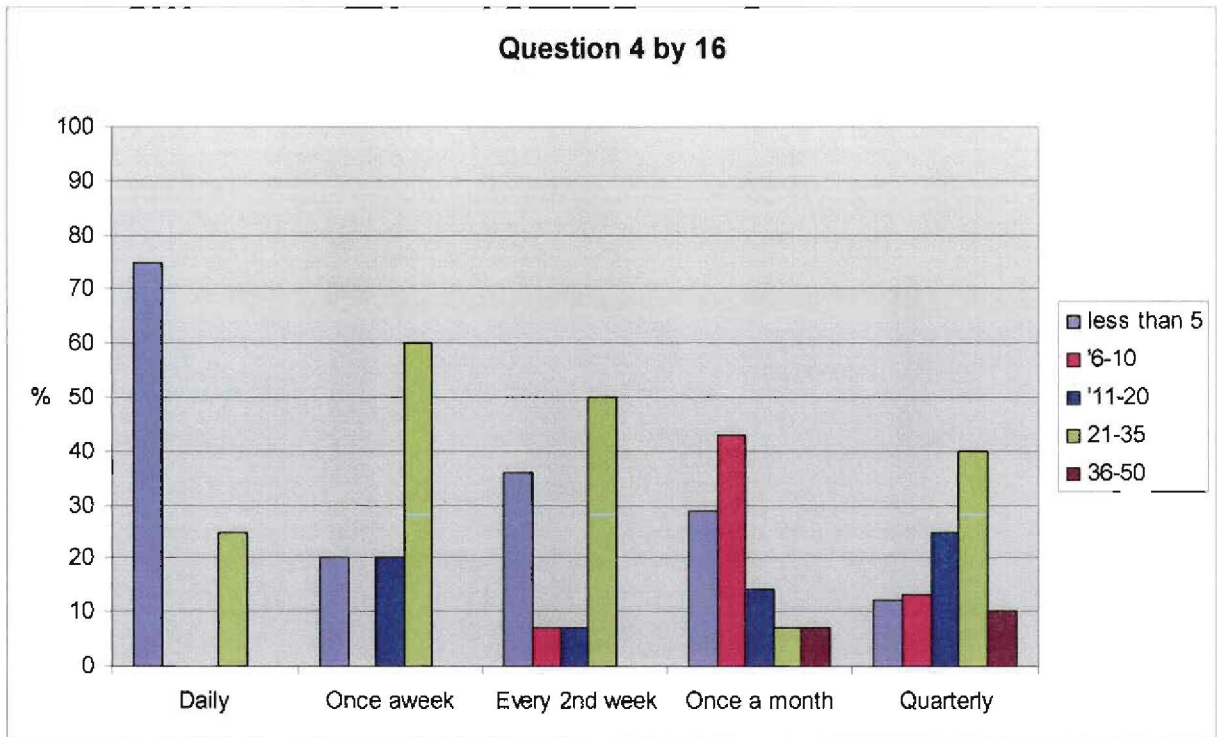


Figure 3.10: Relationship between industry and the consideration of a viability study

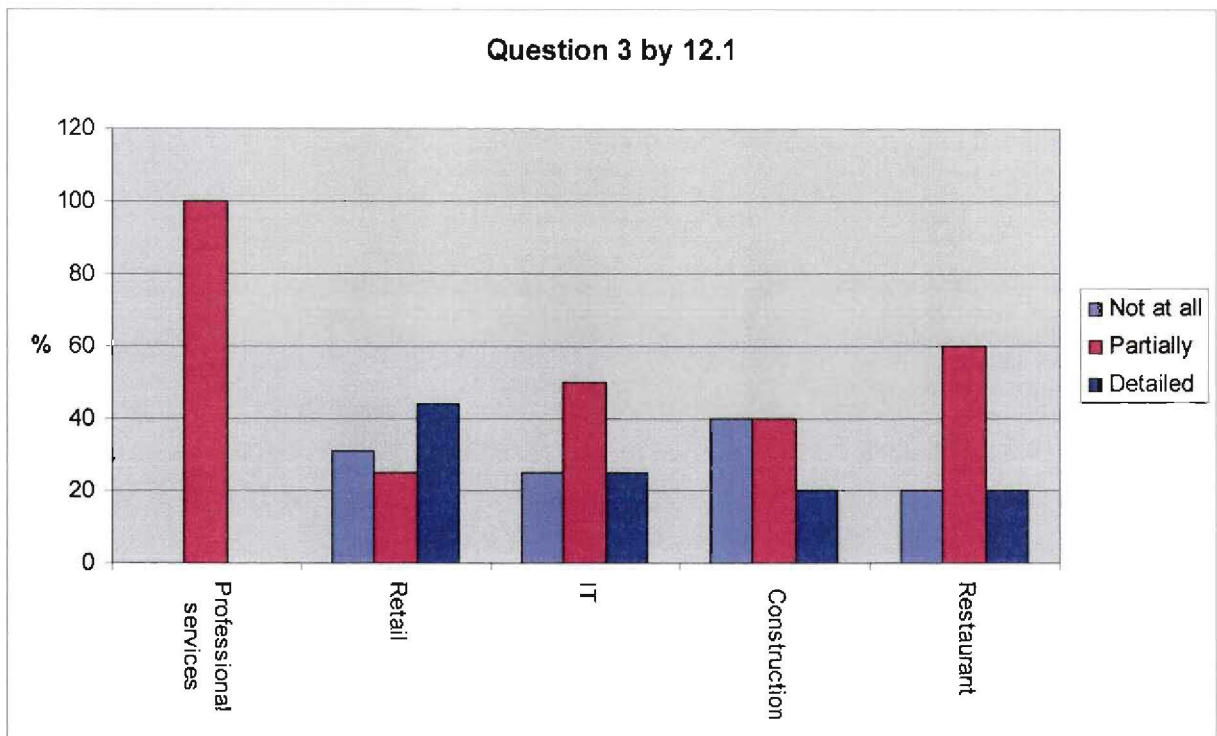


Figure 3.11: Relationship between financial projections and industry type

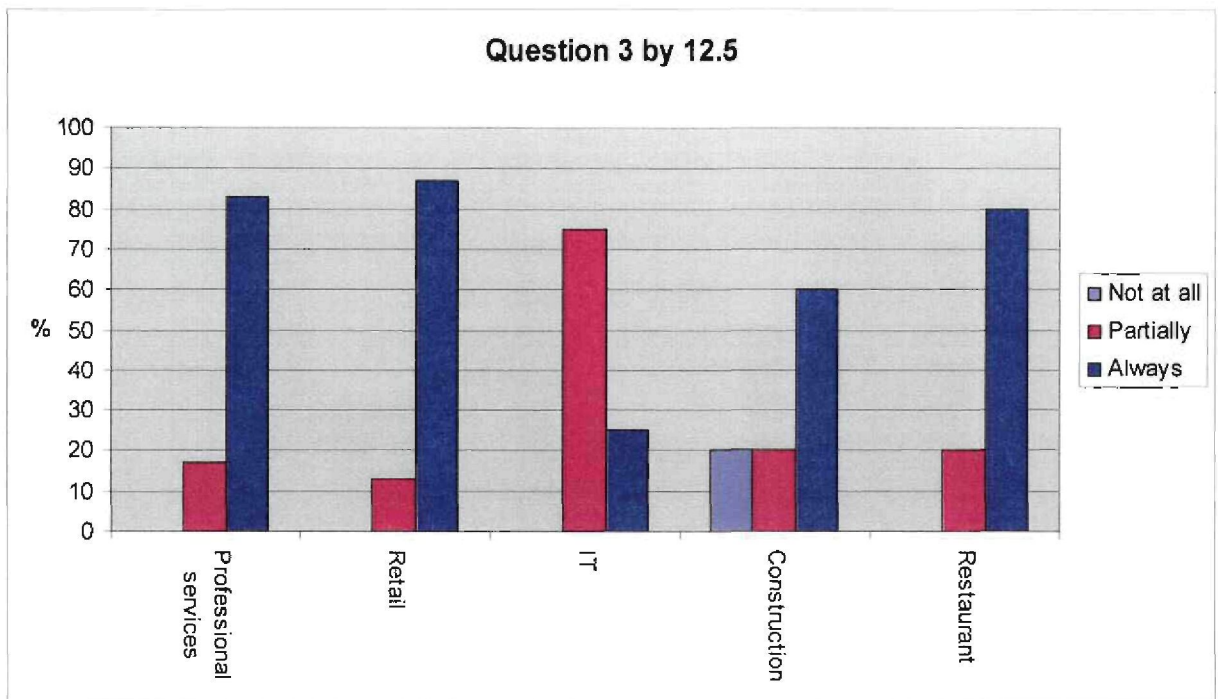


Figure 3.12: Relationship between industry type and importance of financial skills

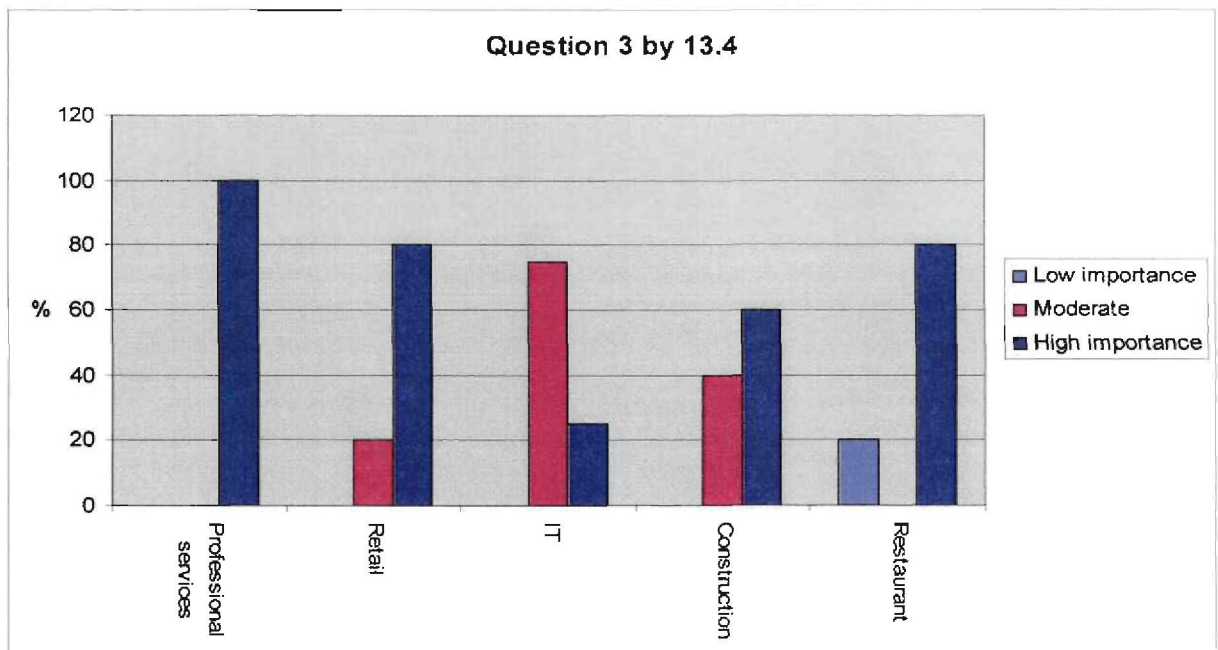


Figure 3.13: Relationship between industry and debtors and creditors management

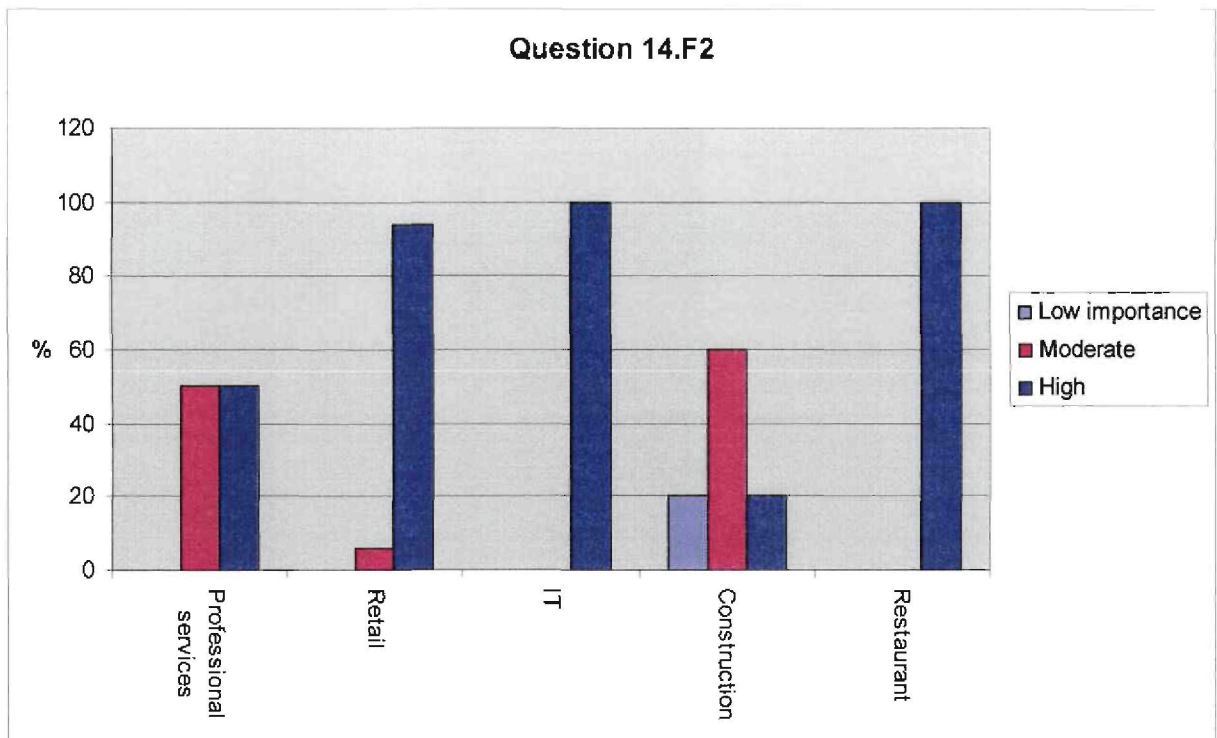


Figure 3.14: Relationship between sales turnover and cash flow management to support business planning

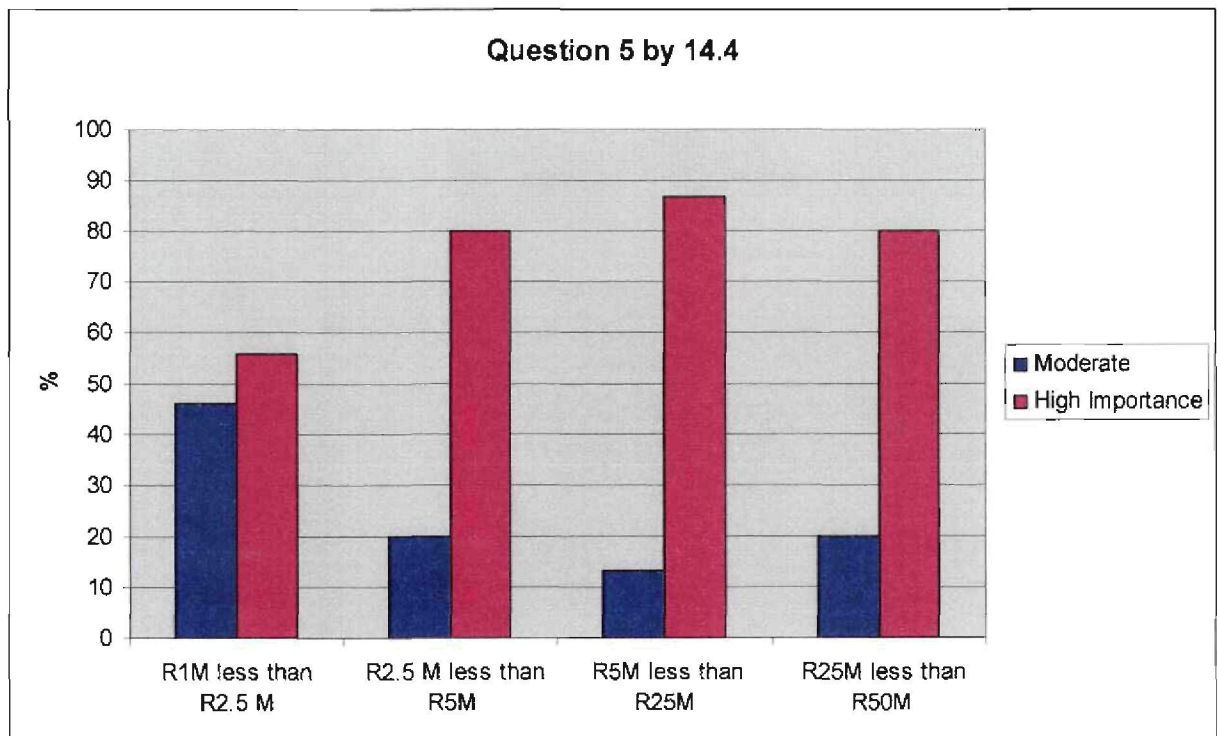


Figure 3.15: Relationship between the legal form of business and electronic cash flow model as success factor in business planning

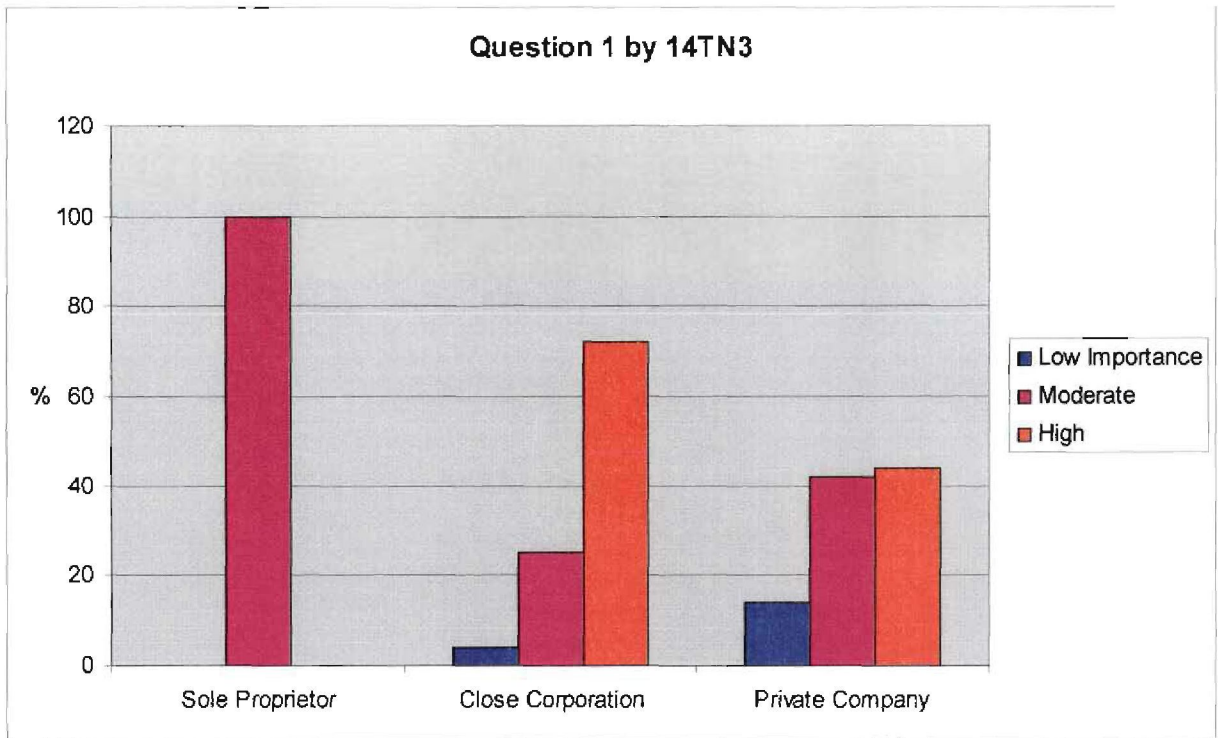


Figure 3.16: Relationship between legal form of business and how often they measure actual performance against strategic goals

