2

Planning

Chapter objectives

The aims of this chapter are to assist the reader to:

- become aware of the importance of business planning
- comprehend the components which constitute the business planning process
- assess the benefits to entrepreneurs of using business plans
- be aware of contradictory research evidence about the benefits of business
- planning among small firms
- comprehend variations in planning behaviour among entrepreneurs.

Business planning

The planning philosophy

Since humans moved from the role of hunter-gatherer towards producer-trader there have been people who have used business plans to manage their operations. The philosophy behind such activity is to understand the current situation, fix future goals and to determine what actions are required to achieve these goals. As the Industrial Revolution led to the creation of larger, more diversified businesses, managing such operations has become more complicated. One individual who has strongly influenced the acceptance of a structured approach to business planning was Alfred Sloan. This individual, as the CEO of General Motors before the Second World War, demonstrated the benefits of using the concept to manage a large, complex, multi-divisional corporation.

Virtually every major text on management theory provides extensive coverage of the processes and techniques associated with the development of strategic business plans. The roots of this approach are grounded in the principles of Frederick Taylor's theory of scientific management and the classicist school of management thinking (Ansoff 1965). Subsequently a number of justifications for the benefits of adopting a strategic planning orientation have been tabled by academics. A very common perspective is that planning is a process which ensures the policies of different groups within the organisation are co-ordinated and directed towards the achievement of a common set of goals. Planning is also seen as providing a mechanism through which to systematically assess a firm's thinking about its long-term future (Chaffee 1985). Not surprisingly, with strategic planning being given a dominant role in management theories concerning large organisations, as researchers became interested in the SME sector, a frequently articulated view was that strategic planning was also critical in optimising the performance of smaller firms.

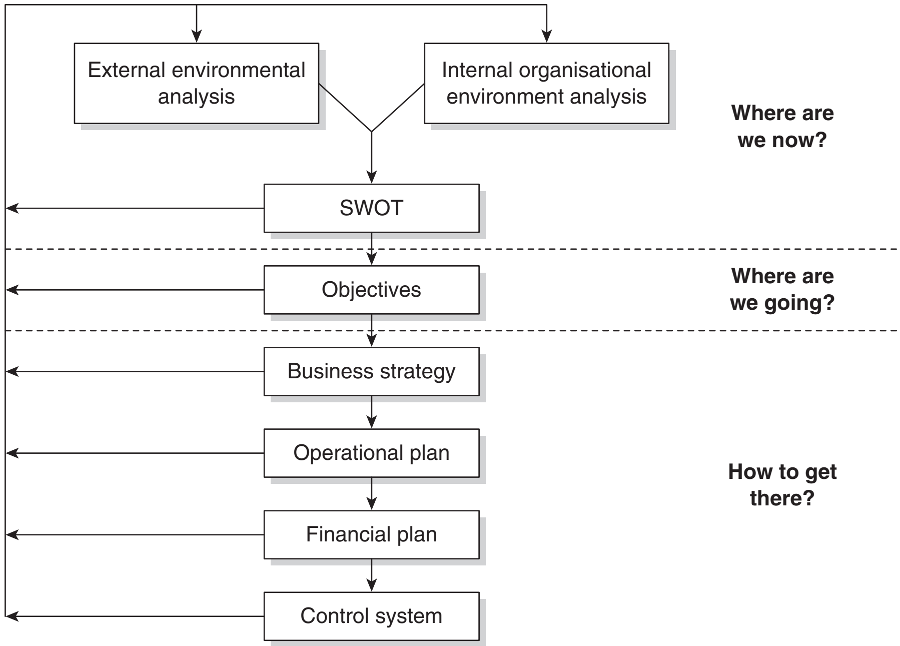

Figure 2.1 *Standard business planning model*

The planning process

The planning model of the type evolved by Sloan and subsequently refined and further developed by other organisations over time is shown in Figure 2.1. This model has been validated by numerous academic researchers and is accepted as the standard template which is found in numerous management texts (e.g. Johnson and Scholes 1999).

The conventional view of planning is that all of the elements described in Figure 2.1 should be analysed in order to make optimal decisions. Furthermore, as illustrated in Figure 2.1, planning is a logical and sequential process. In the development of a plan, adhering to specific rules about the length and structure of the document is not a vital issue. What is critical, however, in the case of entrepreneurs is that these individuals do not delegate the task. They need to provide leadership and be involved at every stage of the process (O'Reagan and Ghobadian 2002). Entrepreneurs should not get fixated on a highly innovative new idea such that when warning signs emerge during the analysis, these are ignored. Should acquired data indicate major problems with a new business concept, then unless a solution can be identified, the idea should be dropped. A new project should then be initiated which can offer an alternative way of generating business growth.

The recommended entry point into the planning process described in Figure 2.1 is an initial review of the market proposition of interest to the entrepreneur. Any review should include an assessment of existing business activities (Quinn 1980). Should the evaluation of current operations indicate these still offer further opportunities for significant revenue growth, this is a much lower risk option than expansion into a new market sector. Assuming the preliminary review indicates that a new opportunity has the potential to become a source of future growth, then a more in-depth examination of the selected market sector should be initiated. This first phase in the planning process is designed to answer the question '*Where are we now?*' This is achieved by analysing the environment external to the organisation accompanied by an analysis of internal operations. Data are used to construct a SWOT analysis, this being the acronym referring to Strengths, Weaknesses, Opportunities and Threats. Strengths define those internal operations at which the organisation excels, whereas Weaknesses are internal activities which are performed poorly. Opportunities identify the areas of the market which could provide the basis for business growth. Threats are market trends which might place the organisation in a vulnerable position.

The second phase in the planning process is to define the future objectives for the business by answering the question '*Where are we going?*' Most business texts will propose organisations should have a number of objectives ranging from sales and profit targets through softer issues such as supporting local communities and being seen to be environmentally responsible. The reality is that unless an organisation is financially viable, fulfilling these latter types of objectives would be impossible. Hence the primary focus in most plans will be in the definition of numeric financial objectives such as sales, profits and Return on Investment (ROI). For these objectives to be an appropriate basis upon which to build future plans, they must meet the criteria of being realist, achievable and measurable.

The final phase of the plan is the area which will consume most of the management's time with the aim of answering the question '*How to get there?*' As shown in Figure 2.1, the first component of this third phase is to determine a business strategy. This is a generic statement describing the primary focus of the organisation's market activities. For Frank Land, the inventor and founder of Polaroid Corporation, for example, his first initial business strategy was that of confronting the photography market global leader Kodak, by developing and launching the world's first instant camera.

The operational components of the plan describe how the various business functions within the organisation will contribute to the delivery of the aims and strategy. These business functions will usually involves areas such as marketing, production, procurement and human resource management. These operational proposals provide the basis for being able to define the costs of implementing the business plan. A financial plan can then be generated by linking these costs to the sales targets that have been specified as the firm's future objectives. The final component of the plan is to define the control system that will be used to monitor actual business performance in relation to forecasted performance once the plan has been implemented.

Planning and commitment

Case aims: To demonstrate that having a plan is rarely sufficient, the entrepreneur will often have to draw upon prior experience and exhibit commitment in order to overcome the obstacles that can emerge while seeking to implement the plan.

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James Dyson, having graduated from the Royal College of Art in London in 1970, first worked as a designer in the world of theatre (Sheshandi and Henry 2006). While at college he had worked on the design of a new type of boat for Rotork Ltd, whose Company Chairman was a close personal friend. The final product, named the Sea Truck, could carry a considerable load and be easily moved in and out of the water. After a period of zero sales, Dyson created a more commercially viable design which led to sales of over 250 Sea Trucks around the world. From this project he learned the lessons of (a) recognising when a design is wrong and immediately making changes, (b) never start an inadequately funded project and (c) 'one size does not fit all' (i.e. it is usually better to customise a product to meet the specific needs of one or more group of customers).

In 1974, Dyson resigned from Rotork to work on his new idea, the 'Ball Barrow'. This was a wheel barrow where the traditional front wheel is replaced with a large ball. Development took five years and having sold some 45,000 units, the company sales manager went to the USA, the ostensive reason being to develop a new market opportunity for the firm. Upon arrival, he joined an American company who then started manufacturing the Ball Barrow themselves. Against Dyson's wishes, his Board entered into a lengthy and costly legal battle about breach of patents and copyright. By now Dyson's interest had shifted to developing a vacuum cleaner that did not lose sucking power as the machine's dust bag becomes full. His fellow directors were not impressed with the idea, so Dyson resigned and launched a new company, the Air Power Vacuum Cleaner Company, to develop his 'bagless' cleaner. The new machine exploited the concept of using centrifugal force in which an outer cone removes large debris and dust while an inner cyclone uses gravitational force to push smaller particles out of the air. By 1982 and 5,000 prototypes later, Dyson had developed the final product but lacked the funds to manufacture the new cleaner. He spent two years travelling across Europe and America trying to sell the design to various major firms. Frequently the potential partner company tried to steal the design. To protect his ownership rights, Dyson was forced to become involved in a number of law suits. One of these was the US corporation, Amay Inc.

Then in 1985, a Japanese company, Apex, agreed to manufacture the product under the name G-force for the Japanese market and to pay Dyson a royalty based upon a percentage of sales. Having received a cash settlement from Amay Inc. which covered most of his outstanding debts, Dyson sought to raise £750,000 to cover the costs of the machine tools needed to start manufacturing his own vacuum cleaner in the UK. Most venture capital firms seemed unimpressed with the fact that he had spent years and several million of pounds developing the product. He eventually raised £600,000 and this, plus another £750,000 from selling his rights to G-force to the Japanese company meant he could fund a move into manufacturing. He registered a new company, Dyson Appliances, hired an Italian firm to develop the tools and mouldings and in 1993 contracted with Philips Plastics in Wales to assemble the product.

Within a short time there were problems with Philips who demanded a price increase which even applied retrospectively to products which had already been assembled. Having gone to court and won the case, Dyson moved the equipment out of Philips and started his own assembly operation. By 1995, the Dyson DC01

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was the best selling upright cleaner in the UK. Then came the cylindrical version, the DC02. By 1996, annual company sales had reached £85 million and the Dyson machines were outselling the UK's previous market leaders, Hoover and Electrolux. Subsequently the company has expanded overseas and is now operating in over 15 countries across the world such as France, Germany, Japan and the USA.

When one compares Dyson's unconventional management approach to the other, conventional, large consumer electrical goods companies there are some clear differences. Dyson tends to enter markets offering a superior quality product at a significantly higher price than competition. His philosophy is that consumers appreciate good design and hence products should be aesthetically pleasing. He places less reliance upon promotional activity such as heavy weight television advertising campaigns. Instead he believes in using 'word of mouth' recommendations by satisfied customers, effective PR and some newspaper advertising. Within the company, his view is that creativity should be the driving force and to support this view, he invests over 15 per cent of sales revenue into R&D (compared with competitors' 3–5 per cent of sales). All key activities such as design, engineering, development, marketing, patenting are kept 'in-house'. Offices are open plan to ensure people interact. Engineers and designers work together, not separately. Everybody is granted the right to be creative and 'dialogue, not memos' is the preferred communications medium. People dress casually and there is no canteen because catering is based on an informal café style. Dyson has articulated the following philosophy in relation to design:

- Ideas do not appear at a drawing board, so make models, create prototypes
- because these will generate additional ideas.
- New technology is only new if it can be patented and thereby protected.
- Believe in yourself, keep testing and re-testing until you, not other people, are completely satisfied.
- Continue to re-think, re-design and improve.
- Challenging convention requires immense stamina.
- Ideas should be managed from start to finish by the originator.

Planning and the entrepreneur

Benefits of planning

Management texts, when covering the issue of business success and failure, usually recommend that it is critical for managers to adopt a structured approach to performance planning (Mintzberg 1990). It is very common that academics, having been convinced that research has validated the benefits of planning in large firms, believe that the same concepts and practices are applicable in small firms (Norbert 1990). The perspective about the importance of business planning is reflected by the importance given to business planning in most University courses on small business or entrepreneurship. This viewpoint can be illustrated by one group of academics writing about entrepreneurship education in which they proposed that 'entrepreneurship should be defined as a profit-orientated activity which applies principles of strategic management and planning in the development of a business and the promotion of its growth'. (Sexton and Upton 1987, p. 37) Hence it is perhaps not surprising to also find that many texts on small business management (e.g. Fry 1992) stress the importance of developing a detailed plan to both identify opportunities and to define how various elements of the organisation will contribute to achieving the firm's specified performance goals. This bias is a little worrying because some years ago, certain leading management theorists have recognised that even in the large firm sector, entrepreneurs are apparently able to successfully run their company without reliance on the use of formal plans (Mintzberg and Waters 1982).

The accepted view of the importance of business planning is also reflected in the philosophy underlying many of the training programmes which are offered to SME sector firms. In the UK, for example, within training schemes funded by the Government for individuals interested in starting a new small business, it is usually the case that over 50 per cent of course content is concerned with constructing a business plan. Outside of the world of education and training, business planning is also considered important in organisations providing guidance, such as Government funded business support agencies or accountants providing professional financial services to the small firms sector. To a certain degree this latter perspective is understandable. Both accountants and bankers, for example, find there is a significant advantage when assessing the viability of a business idea to have their clients provide a formal, written business plan. The document is also extremely useful to these professionals as a control device when reviewing their clients' actual business performance.

Venture capitalists from as far apart as London (England), Silicon Valley (California, USA) and Auckland (New Zealand) will confirm their common experience that the more charismatic and enthusiastic is the entrepreneur, the less likely this individual(s) is prepared to provide any detailed information about their new business proposition when first beginning a search for investment funding (Chaston 2000a). In these cases, the usual next step in the funding negotiation process is to provide the entrepreneur with guidance and support in developing a detailed business plan. The other common experience of these venture capitalists is that although they will continue to use these plans to monitor the subsequent performance of their investment, they find their entrepreneurial partners can rarely be convinced of the benefit of using business plans to assist in the day-to-day management of their businesses.

Published evidence does appear to support the view that under certain conditions, even small organisations can gain benefit from creating a strategic business plan to guide their operations (Ibrahim et al. 2004). One of these conditions is that of business or market stability. It appears when an industrial sector enters maturity, a dominant technology prevails and market growth is minimal, even small firms can benefit from using detailed business plans to guide future operations (Robinson and Pearce 1984). Another appropriate condition for detailed planning is when a firm needs to make a large capital investment to achieve specified revenue goals. In such a situation the firm will probably benefit from undertaking a detailed evaluation of the financial implications associated with making a significant expenditure on new capital assets (e.g. a new biotech company needing to invest in a state-of-the art laboratory). The reason for the conclusion is that given the irreversibility of the major investment in a new fixed asset, neither management nor external stakeholders should approve any large scale project unless the proposal is underpinned by a detailed plan (Berry 1998).

McCarthy and Leavy (1998) and McCarthy (2003) posit that when reaching conclusions about the use of business plans by small firms one does need to take into account the personality of the owner/manager. These two studies reveal that the *charismatic entrepreneur* tends to be driven by the strength of their own convictions, they exude massive self-confidence in their ideas and are passionately certain their venture will succeed. Such individuals rarely perceive the need to develop a detailed business plan and cannot understand why potential investors, without being provided with a plan, will question the probability of commercial success. In contrast the *pragmatic entrepreneur* tends to adopt a more conservative attitude when assessing opportunities and is not prepared to commit their own or others' resources unless there is clear evidence that success in reasonably certain. This latter type of entrepreneur tends to believe business planning can be an effective process through which to identify appropriate future actions.

In trying to persuade entrepreneurs of the advantage of having well documented business plans, one might mention possible benefits such as (Chaston 2000a):

- it forces an assessment of the external environment
- it forces an assessment of the organisation's internal competences
- it quantifies the expected performance goals for the new venture
- it identifies the scale of required resources and the degree to which these will have to be met through the attraction of external funds
- it creates a 'road map' which can be used to monitor actual performance versus plan upon launch of the venture.

Although such arguments will be accepted without question by a graduate from any business school, it will often be almost impossible to convince inventors, creative artists, entrepreneurial owner/managers and scientists or technologists working in laboratories of the merits of diverting themselves away from working on their 'big idea' to spend time writing a business plan. A source of evidence supporting their attitudes on the very limited benefits of business planning amongst entrepreneurs is provided in the materials documenting the development and commercialisation of many of the world's most famous inventions. Thomas Edison, for example, appears to have had minimal interest in the need for planning while developing the electric light bulb. Frank Whittle, when working on his jet engine in the 1930s in the UK, made no real attempt to quantify the commercial implications of his radical new approach to aircraft propulsion. Similarly it seems that Steve Jobs was not really bothered about the need to develop detailed proposals for the future market opportunities for Personal Computers whilst working on the first Apple Computer in his garage at his home in California.

Nevertheless, the experience of many individuals who work as advisers to companies is there are definite merits of developing a business plan in relation to specific situations facing the organisation (Robinson 1979), including those such as:

1 An inventor is at the stage in the life cycle of their enterprise where further progress is blocked unless the individual is able to attract significant external borrowings and/or equity capital.
2 An existing small firm has grown rapidly, new managerial staff have been recruited (or employees promoted to managerial positions) and the entrepreneurial owner/manager wishes to increasingly delegate downwards, the firm's 'future visioning' activities.
3 An owner/manager is engaged in succession planning and wishes to ensure their nominated replacement is capable of sustaining the firm's entrepreneurial behaviour.

Does planning help?

Case aim: To demonstrate that (a) a founder entrepreneur may be able to operate without a plan even as their business becomes very large, (b) a plan is usually a prerequisite to attempting to raise external capital and (c) problems may emerge concerning the lack of a plan as new senior managers take over the running of the business.

In 1917, Mrs Ida Steinberg opened a small fruit and vegetable store in Montreal, Canada (Mintzberg and Waters 1982). Her second eldest son Sam worked in the store after school and at the age of 13 became a full-time employee. The first evidence of Sam's entrepreneurial aptitude occurred in 1919. The shop's landlord asked him to post a 'for rent' sign on the shop next door. Instead Sam decided to rent the site so that his family's shop could expand. By the time Sam died in 1978, from these small beginnings, he had built a business empire generating over $1 billion in annual sales from a portfolio of 191 supermarkets, 32 department stores, 33 catalogue stores, 119 restaurants, 15 pharmacies, 25 shopping centres, a flour mill, a sugar refinery and a food manufacturing operation.

Between 1919 and 1929, Steinberg only opened two stores. Until 1933, the basis of the store expansion programme was to open another store when a new member of the family needed a job as a shop manager. Then in 1933, a new store ran at a massive loss. Over the weekend, Sam changed the name of the outlet to Wholesale Groceteria, slashed prices, removed all forms of customer service and created Canada's first self-service retail outlet. The action was highly effective. As a consequence he introduced the philosophy of discount pricing and self-service into all other existing stores and all new stores which were subsequently opened. Also in the 1930s Sam, instead of renting stores as he had always done in the past, began to create the new stores using mortgage financing. He also started buying land which he thought would be good for retail development some time in the future. In 1946 with the war over, Sam returned to opening new stores and buying more sites with future retail potential. The company moved into food manufacturing and acquired a huge warehouse to develop a more effective store distribution system.

During the early 1950s, Sam boasted that the family had never needed outside investors. In response to questions about his future plans, his standard answer was 'who knows?' Then in late 1952, Sam announced a $15 million, five-year expansion programme. The problem was the firm did not have sufficient internal financial reserves to support the scheme. In seeking a new source of funds, Sam rejected the idea of the family having to give up their shares in the business. Eventually he found a financial institution that would support a general debenture issue for $5 million and allow the company to retain 100 per cent control of the business. In order to be able to issue the debentures, for the first time in his life Sam was required to develop a detailed business plan. Raising the loan meant the financial community had a strong interest in monitoring the company's performance. The financial community also applied pressure to persuade Sam to create a more formalised hierarchical management structure and to recruit new, experienced senior executives from outside of the family. Further external pressure was placed on the firm to base all future operations on clearly defined, formalised plans when in 1955, the company made its first ever

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public share issue. None of these shares had voting power, so the family retained 100 per cent authority over any key decisions with Sam being able to formally vote all the family shares at any Board meeting.

The period of 1950 to 1960 saw the company continue to open new stores and expand into Ontario. During the 1960s, Sam stood back while his professional executive team implemented a major diversification programme moving into department (later re-badged discount) stores, restaurants, flour milling and sugar refining. These activities were accompanied by a massive centralisation of authority and withdrawal of the delegated authority which stores had enjoyed in the past.

By 1968 due to both economic conditions and the move towards becoming a much more formal, ponderously slow organisation, sales began to plateau. In almost an exact duplication of Sam's 1933 response to poor trading conditions, a new scheme Miracle Pricing was rapidly introduced into the company's supermarkets. This programme involved permanent across-the-board price reductions, stocking mainly only very basic grocery items, cutting back on in-store staffing levels and reducing the advertising budget by 50 per cent. The only difference between this move and the 1930s scheme was that the project champion was not Sam, but the head of the Quebec store operations. This time, however, the new organisational structure meant significant time was lost whilst attempting to convince other senior executives of the viability of the idea.

By the early 1970s, Sam was beginning to feel his age. No potential successors had emerged from within the Steinberg family. In the face of pressure from the financial community new Board level executives were brought into the operation. Unfortunately, the 1970s in Canada were a period of high inflation and labour unrest. To survive the company to needed to exhibit a more entrepreneurial orientation in order to be able to develop fast, flexible reactions to new threats as they emerged in an increasingly difficult retail environment. The new senior executives had come from large corporations and were committed to an organisational philosophy based on detailed formal planning accompanied by complex control systems to monitor business performance. The outcome was Steinberg's faced a period of labour unrest and when the need to make staff redundant arose as sales continued to decline, this led to a series of strikes. By the time of Sam's death in 1978, the company was in deep financial trouble. The situation was exacerbated by feuding inside the Steinberg family over issues such as who should be in control of the business, whether to accept recommendations being made by the company's professional managers and if all or some of the business should be sold. By the mid-1980s, the company finances had deteriorated to the point where the only solution was to accept a takeover offer from another corporation. Sadly even this company failed to turn the business around and in 1992 Steinberg's went bankrupt.

Conflicting evidence

A review of the research studies which have been undertaken to validate the hypothesis that strategic planning is critically important for small firms will reveal somewhat contradictory conclusions. Some studies such as Lyles et al. (1993) are able to convincingly demonstrate a positive, strong correlation between having a plan and improved business performance. Other researchers, however, when attempting to validate the relationship between planning and performance have been unable to reach such a definite conclusion (Berman et al. 1997).

When seeking to understand the possible causes for these inconclusive findings, it is necessary to recognise a number of factors can complicate the generation and interpretation of research results concerning studies of business planning in the small firms sector (Chaston 2002). For example, in one project where the researcher concluded that owner/managers consider business planning as extremely important, the sample frame was drawn from individuals who had previously all participated in a University course on small business planning. Another concern about sample selection is the common practice of using a sample frame from across industrial sectors and/or to generate data from firms ranging in size from micro-business through to medium size operations. In these instances, the researchers then often fail to provide any statistical analysis about whether planning practices might vary across either different sectors or different size firms.

Even where researchers have attempted to control the potential influence of multiple sectors or firm size, one may still encounter somewhat questionable decisions about research tool design. One research group, for example, having decided to classify respondents in relation to the level of planning sophistication, did not include intuitive planning in their typology. This decision was made because industry experts advised them that intuitive planning was 'not a characteristic of the individuals who might own and manage firms' (Sexton and Van Auben 1985, p.10). Another potential research problem is using data on a very specific scenario as the basis for justifying generalisations about the entire SME sector. Two different researchers, for example, having respectively concluded that business planning assists small retailers and owners of dry cleaning businesses, used their results to justify the view that business planning will assist the performance of small firms in any sector of industry.

Plan, what plan?

Case aims: To illustrate that extremely successful business ideas can be developed and launched apparently without the founders being too concerned about the need for a formal business plan.

In 2003, Tom Anderson – a musician and member of various bands – had the idea of creating a Website where unknown Indie bands could for free, add videos, biographical materials and/or sound tracks of their performances so that these could be accessed by their fans. He and his partner in the venture, Chris Dewolfe, created MySpace.com (Kelleher 2005). Initially to persuade bands to use the site, the two entrepreneurs spent their nights visiting Los Angeles live music venues to promote the idea that the new world of music was all about using social networks to expand bands' fan bases and to be seen by people living outside of California. Only two years later, the site had built up a membership of 14 million members, with 65,000 new users joining daily. By this time MySpace was generating more than $20 million in advertising revenue from firms such as Nike and Sony who realised the site was an extremely cost effective medium through which to reach the 16–34 age group who constituted 65 per cent of the user base. One of the reasons why demand for advertising space was so high

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was that in 2004, Procter & Gamble reaped massive rewards in terms of increased sales for their deodorant for young women, Secret Sparkle, by the innovative approach of sponsoring the singer Hilary Duff's MySpace pages. Recognising the huge revenue potential which the site offered, only two years from launch the two founders sold the business to Rupert Murdoch's News Corporation for $580 million.

Planning in practice

Despite the extensive support which planning as a key business process has received over the years in the academic literature, a question still exists about the degree to which the development of a business plan can have a positive influence over the performance of small firms (Shrader et al. 1989). Other researchers, however, when attempting to validate the relationship between planning and performance have been unable to reach such a definite conclusion. The latter perspective is supported by observations of the actual behaviour of owner/managers. These have revealed that many successful small firms do not appear to bother with developing a formal, annual business plan (Carson 1985). Researchers such as Allison et al. (2000) and Kets de Vries (1977) have concluded that few entrepreneurs engage in formalised, long term planning or follow formal, logical models of business process. Instead there is a tendency to act on the basis of instinct, intuition and impulse.

In view of the contradictory evidence concerning the benefits of formalised planning in small firms and some of the potential problems that may be caused by research methodology or data analysis, it is really impossible to reach a solid and certain conclusion either way on this issue. Possibly the safer option is to accept a contingency approach; namely for certain firms in certain industries managed by certain individuals facing certain circumstances, the use of a strategic plan will contribute towards improving business performance. It also appears reasonable to conclude that depending upon their preferred management style, individuals engaged in managing a successful entrepreneurial small business in a complex and changing environment may find that the business planning process is an advantageous method through which to reach key business decisions.

Beaver (2007) has presented a very thoughtful review about the issues associated with the debate about the use of strategic planning in small firms and the advantages this may confer. In presenting his conclusions he made the following observation that:

> It is easy to state the obvious – that thinking and managing strategically is an essential pre-requisite of business success and superior performance for all firms, whatever their size, sector or complexion. To do so is to court naïveté and ignore the role and meaning of strategy and its effect on enterprise prosperity. This is not to deny the value and importance of corporate strategy and business planning but rather to appreciate the complexity of the subject matter and its relationship with organisational achievement in the face of possible difficulties in the operating environment. (Beaver 2007, p. 19)

Entrepreneurial planning behaviour

In providing guidance on strategic planning to SME sector managers, it is important to recognise that many entrepreneurs prefer action over reflective thinking. Their desire is to minimise the time spent planning and instead, immediately move into active trading. Some entrepreneurs also exhibit a business philosophy based upon intuitive decision-making, linked to a preference for learning by experience. Hence given that published research studies have not categorically proven business planning is a beneficial activity, then if some entrepreneurs are adamant about starting to trade without having previously constructed a formal strategic plan, it is probably fruitless trying to persuade them otherwise.

Despite entrepreneurs' preference for action, when working with these individuals, academics and small business advisers do have a responsibility to bring to their attention that there are circumstances when business planning is possibly the wisest option. For example, if there are numerous unanswered questions about the market to be entered or existing market conditions appear to be undergoing major change, then the planning process can generate new knowledge that supports a more informed decision about the viability of the business proposition under consideration. The existence of a plan is also beneficial where there is a need to communicate with others outside the firm (e.g. a bank or venture capitalist when seeking external funding), to generate input of the company directors or management team and to brief employees on their specific roles in relation to achieving the firm's performance goals.

Many small business support service advisers and sector professionals will confirm that even where the entrepreneur can be persuaded to undertake some form of business planning, the process utilised will frequently not mirror that shown in Figure 2.1. Instead, as summarised by Anderson and Atkins (2001), entrepreneurs exhibit a wide range of different approaches depending on market circumstances, the current financial position of the business and the managerial style of the owner/manager. Two examples of the variation in behaviour which they identify are:

1 *Butterfly planning* which is a deliberate attempt to experiment with various situations and scenarios to gain a wider understanding of situations.
2 *Lottery planning* which involves experimenting with various situations or scenarios by a process of random selection.

A common trait which these authors propose exists among entrepreneurs are the differences in the entry point into the planning process and the degree to which the components in the conventional sequential process are actually analysed as the basis for selecting preferred future actions. As shown in Figure 2.2, one way to communicate this situation is to present the planning process as being similar to a spider's web. At the centre is the major issue of most concern to the entrepreneur; namely the future performance objectives for their business. In deciding whether these objectives are both feasible and realistic, different entrepreneurs will opt for reviewing few, some or all of the key topics summarised in Figure 2.2. Furthermore, one can also expect significant variation in the order with which entrepreneurs will review these topics.

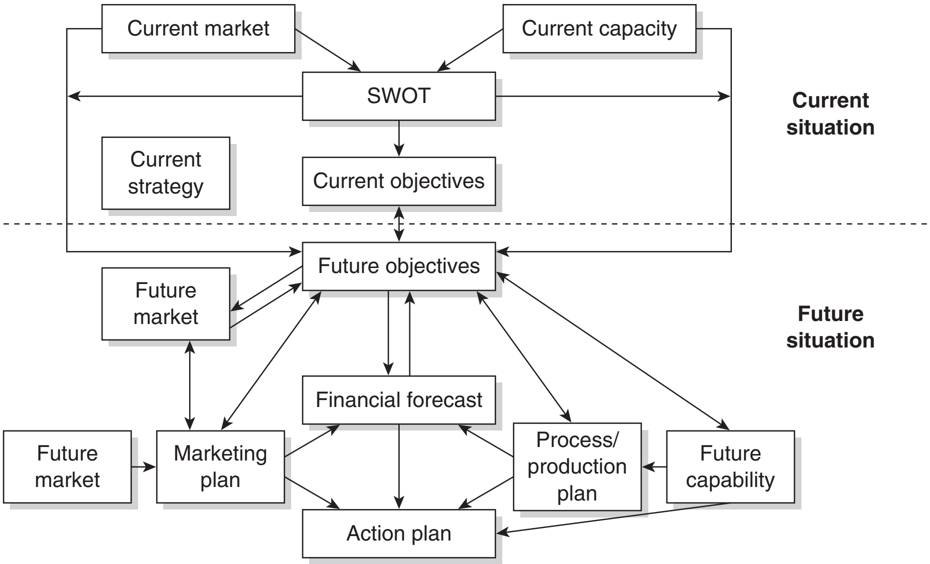

Figure 2.2 *Possible components in an entrepreneur's approach to planning*

Planning by trading

Case aims: To demonstrate that because the scale success of a new entrepreneurial idea may be highly dependent upon non-forecastable, non-controllable external events, then the ability to develop an accurate, structured, formal plan in the early years of a new business may not be a feasible proposition.

Chad Hurley and Steve Chen cut their respective teeth in the on-line world as two of the first twenty people ever to be hired by the hugely successful electronic Internet payment system company, PayPal (Wasserman 2006). Their backgrounds could hardly be more different. Hurley had a degree in fine arts, whereas Chen's was in advanced computing. In January 2005 they wanted to share some videos they recorded over the holiday season on their mobile phones with some other friends. At this juncture they became extremely frustrated by the difficulty which then existed sending video materials over the Internet. In an approach highly reminiscent of Steve Jobs, the founder of Apple, the two worked together in Hurley's garage. By May 2005, the beta version YouTube.com was in operation. Initially the site only had 30 video clips, and most of these were of Chen's cat.

The new company was not making a huge impact in terms of site visitor numbers but it was attracting the attention of people in the media industry and more importantly, rapidly became the video transfer and download system favoured by teenagers using MySpace. It was not until December 2005, however, that the site finally caught the world's attention when somebody posted a copy of a video of a section of an NBC programme. The presence of this clip on the site spread mainly by word of mouth generated millions of new visitors, virtually all of them teenagers. Heavy blizzards trapped many Americans at home at the

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beginning of 2006 and this is thought to be the reason that early in that year, monthly visitor levels reached over 4 million. People started posting their home videos, then the idea took off of teenagers doing something crazy (e.g. four Chinese students singing rap songs) and within a short time YouTube was where many young people turned for entertainment.

A further stimulus to site visitor levels was generated when well known members of the entertainment industry also started posting video clips on the site. The site does not offer a suitable framework for traditional on-line advertising, but some of the more perceptive people in the world of advertising realised that products could be promoted by either sponsoring video clips or shooting videos which included usage of the product. One of the first to recognise this opportunity was the sportswear company Nike which posted a short video featuring the Brazilian football star, Ronaldinho. This clip, publicised by word of mouth among YouTube users has been viewed over 20 million times. By late in 2006, YouTube fans were uploading 65,000 videos a day and the site had built a global audience of over 100 million users. Most of these users, mainly young people, were individuals most difficult to reach via conventional media channels.

Not surprisingly the level of audience size represented a huge opportunity for the on-line advertising industry. The outcome was than another global Internet success, Google™, which had been started only a few years earlier by two other on-line entrepreneurs, Larry Page and Sergey Brin, purchased YouTube for $1.65bn (Anon 2006D).

SUMMARY LEARNING POINTS

- Business planning is considered as a critically important process in the successful management of organisations.
- The business plan involves the three-stage process of determining 'Where are we now?', 'Where are we going?' and 'How to get there?'.
- The conventional view is that the use of business planning is extremely important in ensuring successful performance within the SME sector.
- Many entrepreneurs either do not develop a business plan or alternatively, adopt a more informal approach to determining appropriate future actions for optimising the performance of their enterprise.

ASSIGNMENTS

1 What external Government support services exist in your country to assist small firms to develop business plans and/or to develop the business planning skills of owner/managers?
2 What differences would you expect to encounter in the management of the business planning process in large versus small firms?
3 How might the number of employees influence the need and nature of the business planning process in a small firm?

DISCUSSION TOPICS

1. Can an entrepreneur be successful if instead of developing a formal business plan, the individual uses intuition to reach decisions about managing the future?
2. What are the possible obstacles that can confront the owner/manager undertaking business planning at (a) business start up and (b) during the early years of trading?
3. Select and visit the Websites of two major banks and review the small business support services offered by these two organisations. Prepare an analysis comparing the services offered as the basis for a discussion about why you would prefer one or other of the banks if you were starting a small business.

Additional information sources

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