

## PLANNING PROCESS IN SMALL AND MEDIUM SIZED ENTERPRISES IN SLOVAKIA

LUBOŠ ELEXA<sup>1</sup>

**Abstract:** *Planning process in enterprises of countries in Middle and Eastern Europe is still suffering from previous period. Many years of centrally planned economy influenced the economics of companies and later the thinking of managers and owners. After the change of political and economic system any problems still persists, even though the process of transformation is finished. Small and medium sized enterprises (SME) are many times infamous for lack of available resources, including time and skills. Therefore the combination of this and previous reasons makes planning process to be complicated. Based on this we have focused on analysis of situation in SMEs, position of planning within corporate management, typology of plans compiled in this group of companies and both advantages and disadvantages connected with implementation of plans. This article describes the methodology of research realized on the sample of 225 randomly selected companies and specified results gained from the questionnaires. Results are bringing an insight into business practice of SMEs in Slovakia with strict orientation on planning.*

**Key words:** *management, planning, plan, objectives, control.*

### I. INTRODUCTION

To run a business is not possible without clear orientation on real and relevant objectives. To establish a company entails from owners or authorized managers to have an innovative idea or to find a niche at the market. When doing a business it is necessary always to analyze primarily own potential and also the conditions created by all participating subjects affecting business.

For satisfaction with reached or preliminary fulfilling objectives, with good position at the market or own competitiveness a status quo is not a good attitude, primarily towards company's future. Permanently changing business conditions and globalized business environment are making each day to be different. Entrepreneurs are supposed to be prepared for each change regardless of the fact that it can turn to be positive or negative.

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<sup>1</sup> Ing. Luboš Elexa, PhD., Department of Corporate Economics and Management, Faculty of Economics, Matej Bel University, Tajovského 10, 975 90 Banská Bystrica, Slovakia, tel.: +421/48 446 2711, e-mail: lubos.elexa@umb.sk.

Proper reaction on changed situation and effective actions are making differences between successful and unsuccessful companies. Therefore each attempt to forecast the future and prepare for possible consequences (of changes in environment and of taken measures) can help to managers to improve company's results.

Process of planning tends to be a way of systematic approach towards activities and projections of business future of each company (Grznár, 2003, p. 7). Of course, it depends on business area in which planning process is made, because particular functions performed in company are more or less important from the point of view of company itself. While financial planning is considered to be a complex and foremost, dealing with earnings, cash flow or balance sheet items, human resources planning is mainly a matter of human resources utilization, stimulation and productivity. Plans have different function, different time frame or different importance. In companies they are more or less necessary, but certainly they are asked. They can harm if they are not good, but first of all they can help to be effective and profitable.

Unfortunately, because planning can be a sophisticated activity spending a lot of resources, companies are hesitating whether to plan, thinking that they are losing something or wasting with limited resources. Primarily small and medium sized enterprises (SME) have not as much capacities as big companies have. Therefore this article is a reaction on similar situation and it is an outcome of research realized on a sample of small and medium sized enterprises with effort to reveal the extent and burden of planning in mentioned companies.

Setting of corporate goals, their fulfillment and control is one of basic assumptions of continual growth in companies. Projection of activities, planning of production or services providing, connected with their appropriate time horizon in scheduled frame and with available sources enables to observe the development in continuous way and when something fails, flexible reaction can be made.

Slovakia as well as other transforming countries was for many years hidden in trap of centrally planned economy. It was famous for strictly set goals from point of view of government, ministry or political party. To exceed planned goals was the main goal, bigger the better. Planning centre set prices as well and it resulted into such fact that gross domestic product was based on vague numbers, irrationally and without respect towards available resources or efficiency.

Suddenly, after the fall of iron curtain, formerly state companies were facing to new conditions, arising private ownership and strengthening

of competition. Old planning attitudes were still applied as a big mistakes, because they were based on former principles not respecting the relation between too optimistic oversized results and limited expensive resources. But market economy caused change in this and results can be planned only till the extent of available inputs, not set according to state plan, but according to situation at the market, size of demand, intensity of competition and companies abilities.

Therefore new approaches were introduced to overcome problems of former period. Whether it was successful or not, we are not able to say. We are trying to find out, which attention is paid to a planning effort, whether the companies kept previous habits in management or are they nowadays afraid of planning.

The truth is that managers should perceive planning as a key element in management process, because it is a basis for other activities. It set what to do, when, how, who is in charge. Planning is continual process because only rarely situation is the same as projected and many times more or less important amendments are necessary.

Planning is a process of goals formulation and activities for their fulfillment specifications. Planning process can be perceived not as activity of just one person or a small team (e.g. CEO, owners) but as all encompassing effort in which almost all employees are participating regardless of the fact on which degree of corporate hierarchy they are.

Small and medium sized enterprises were in central planned economy less important from the point of view of government. The priority was set on mass production and mass employment. After 1989 in former Czechoslovakia and after 1993 in Slovakia SMEs position was emphasized and they received much more attention now. This led into rising share of these subjects on total GDP creation, employment and of course on total number of business entities. Nowadays, we can say the structure of companies running business in Slovakia is just the same like in other developed countries all around the world.

## **II. METHODOLOGY OF RESEARCH**

Research aimed at planning activities of small and medium sized enterprises was realized in 2009. Its main objective was to find out the extent of planning process in SMEs and to examine areas, on which planning is concentrated. Partially we have focused on typology of corporate plans, time scope in which companies are planning, responsibility for compiling a plan and setting of goals and specification of obstacles, which are connected with planning or which discourage companies.

Before starting a research we set three basic premises we would like to confirm or reject according to the results of realized research:

- H1: Most of small and medium sized enterprises are not compiling plans in formal way.
- H2: In case of planning main initiative is made by company owners.
- H3: In case of compiling a plan and setting goal control of their fulfillment is being realized at least once per month.

Questionnaire was chosen as the most suitable technique of data collection. It contained 18 questions. Short identification of answerer was intended as basic form of further specification and examination of significant differences between particular groups of respondents. Aim was to be able selectively interpret results according to the legal form, size, branch, region or origin of capital. Further questions were grouped in order to fulfill partial objectives.

Research sample was created by 225 randomly selected companies located in each region of Slovakia thus creating manifold group of small and medium sized enterprises. Therefore SMEs were the target group and all big companies were excluded from consideration.

The structure of companies involved is created mostly by microenterprises, which represent 65 % of all companies, the share of small enterprises is 30 % and medium sized enterprises create just 5 %.

The biggest portion of companies in research sample is made by companies providing services and from sector of trade. From industrial sectors the biggest shares have companies from textile, automotive and wood-processing industry. This is quite understandable, because just these branches (maybe just except of missing electrical industry) are most important from the point of view of created GDP or employment in Slovakia.

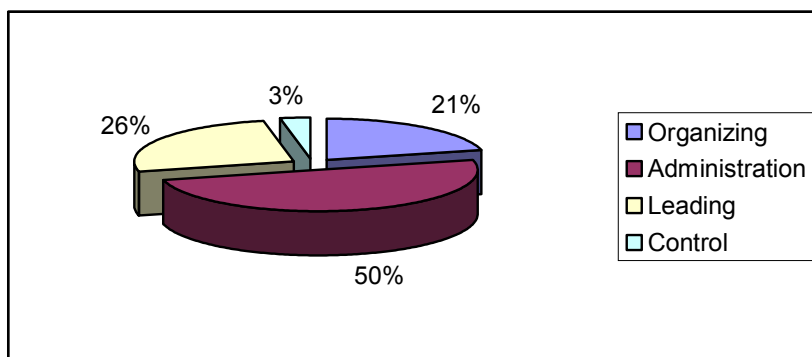
From the point of view of time we were also trying to find out, whether there exist any differences between quite new companies and those established in former period before 1989, between formerly state owned and private ones. Most companies were established between years 1990 and 1995 and than after 2004. While first period is famous for the fact, that just in that time private ownership was opened and second period started when Slovakia entered to European Union.

### III. PLANNING PROCES IN SMALL AND MEDIUM SIZED ENTERPRISES IN SLOVAKIA

At the beginning of proper questionnaire we would like to know, whether companies understand planning as a part of common managerial functions trying to find out the extent in which companies are planning or possibly also to reveal the fact that they are not planning at all.

We found out the priorities chosen by companies in performing managerial functions. As the first they were asked to rank activities from the point of view of importance dedicated to each of them and then to express their portion on total time spent.

Particular managerial functions from point of view of importance are depicted on following chart:



**Chart No. 1 Managerial functions from point of view of importance**

Source: Self-processing of own research

As you can see 50 % of all companies prefer administration as the most important managerial function, leading and organizing have almost the same portion and control just 3 %. Very surprising, and even a little bit frustrating fact is, that planning is not considered being an important part of managers' activities, because nobody chose it.

When concentrating on results from point of view of time, which is spent on each of mentioned managerial function, order is quite similar. Managers spent most of time by performing of administration activities and they spent in this way about 31 % in average. On second place are equally planning and organizing with about 21 %. It means that even though managers do not prefer planning, they spent one fifth of their time by planning of corporate development. Leading has about 12 % and control approximately 15 %.

Further we have concentrated just on planning process as it is the main object of our examination. We aimed on simple question, why companies do need planning process and for which reason they are doing this.

From results it is obvious that primary reason for compiling a plan is the necessity to project financial output and to acquire financial funds. 15 % companies chose this point. Effort to streamline main business was mentioned as the second best with 14 % and attempt to place a new product on a market as the third best reached 13 %. Just four companies are not planning and the reason was that they do not need plans for business.

Following questions were aimed just on companies which are compiling some plans and we would like to know which ones they compiled before. We have divided this categorization into three parts – from point of view of time, function and corporate level on which plans are generated.

Plans according to function are important because of fact, that they characterize on which areas did companies concentrate and possibly how arduous is the corporate organization chart. The results proved, whether companies prefers to estimate financial results, to project marketing activities, to plan supply chain conditions or another part of business. Small and medium sized enterprises compiled mostly marketing plans (21 %) and plan of supplying or investments (both 18 %). Financial plans are made more rarely (14 %), personnel plans and plans of research and development have been almost never compiled. Importance of marketing plans is coming out from the necessity to be successful at the markets and to beat competitors. Other researches in this area dealing with planning, oriented for example likewise on marketing planning (Petrovičová, 2007), confirmed that priorities may be laid down just on this type of plans.

From the point of view of time we would like to know, plan of which time horizon are compiled at most, whether rather short-term or even with longer time scope. Small and medium sized enterprises generally tend to prefer rather short-term objectives and tasks which could be fulfilled very quickly. Therefore we would like to confirm or reject such expectations.

Results showed us, that this premise was correct. Plans of one year periodicity were marked as most frequent. 26 % of companies checked them and specified that they are equal to business year length and therefore are more suitable for their needs. Business plans and quarterly plans got the same equal result at the level of 19 %. Strategic, long-term plans are drawn up only seldom (9 %), what is quite understandable, because these plans are out of expectations and disrupt the flexibility of SMEs.

From the point of view of corporate level we tried to find out, whether it is possible to compile plans for particular department or branches of the same company or these companies are “small” enough and draw up plan just for whole company. The nature of SMEs at first glance with focus on micro enterprises and small businesses, excludes disassembly of planning process to partial units. On the other hand even they have the possibility to plan project activities separately, out of regular plans made each month, quarter, year, because projects are prepared and planned often regardless of business year, but they are connected with special needs and expectations.

Responsibility for keeping a planning process in companies lays down on shoulders of company owners (61 %), but the initiative may be shown even by other employees, because they should feel free in performing their jobs. According to 7 % of companies, the “starter” of planning process can be whatever, even the “third party” out of company. It means that each entrepreneur, every company should be vigilant and to observe external environment for possible opportunities, new ideas and incentives for potential growth. Mainly from the point of view of further development sometimes SMEs suffer from limited capacities and much less employees. Growth potential is therefore limited and new incentives should be looked for out of the company.

In connection to limited resources, in planning mainly human resources, even the knowledge should be revised. Planning process mostly in production or supplying chain is famous for eventually more sophisticated methods, which are not well known to owners or company managers. Many times such methods entail to understand not only basic but also exact mathematical and statistical principles, to use special databases and software. Just because of this we would like to know which planning methods or techniques SMEs used to involve into planning process, whether they can name them and specify their utilization. Because sometimes planning process tend to be automatic without systematic approach and broader awareness. For example simple balance methods, expertise, scenarios are used practically in everyday usage in common reporting without broader skills.

After processing of questionnaires we have found out that more sophisticated methods are not those of practical usage in SMEs. They use mostly very simple methods of basic environment analysis and time series analysis is just rarely applied. Results were much spread out and particular methods reached about 5 % each, none gained more than 8 %. Very surprising fact is that even such famous simple methods and techniques like

Ansoff matrix, GE matrix or Porter's model of five forces are not used within planning process and elaboration of plans.

Open questions were set in order to reveal practical advantages and disadvantages connected with common planning process. Of course, just these companies were interested, which chose planning process as an integral part of their management. We do not want to limit respondents therefore they had enough space to formulate their experience with planning.

Answers responding to advantages of planning process were frequently almost the same. Main point is that companies consider plans to be a way how to reach selected objectives. Of course, it is understandable, because this is the main function of plan. At the same time it enables to control the whole process and its partial results, thus the company has the opportunity to make appropriate amendments. Another opinion was that due to planning company knows how to avoid to unfavorable situations or eventually risks, employees could be organized in more effective way, capital into investments is allocated with higher revenues, new products and services are introduced with minimum costs. On the other hand company can observe the situation at the market, to battle with competitors without significant losses, increase productivity, and stabilize earnings. From the point of view of production continuous process is secured, inventories are cut down to a minimum level, satisfaction of customers is held by appropriate and prompt deliveries and material and human resources are utilized as efficiently as possible.

Disadvantages in planning process or obstacles connected with implementation of plans are only rarely mentioned. But in our research all answerers (100 %) agreed that the main problem of preparation, implementation and control of plans in small and medium sized enterprises is the lack of time. To give up a part of time and effort for the purposes of planning is possible and frequent (otherwise no company compiles plans) possibly other activities or opportunities are neglected. As less frequent problems were mentioned insufficient skills of employees in charge and possible changes in needs and tastes of customers and rapid shift in business conditions, like current global economic crisis, which makes environment to be unpredictable, customers unstable and business changeable. Unfair competition, fluctuations of exchange rates, failures in deliveries, problems in supply chains were specified as less important problems in planning but still serious to stop planning or think about its limitations.



#### IV. RECOMMENDATIONS AND CONCLUSIONS

When starting our research we have specified main objective including partial ones we would like to fulfill. Collecting of questionnaires, their processing, evaluation and interpretation confirmed that these objectives were fulfilled. At the same time three main hypothesis were set.

First hypothesis, in which we supposed that most of micro enterprises are not compiling plans in formal way, we have to reject. The reason was that just 10 % of mentioned companies are not compiling plans in written form. It means that even in case of relevant disadvantages small and medium sized enterprises realize necessary functions of plans itself and planning process as continual activity with its connections to other managerial activities and management as complex, logical and long-term system.

According to second hypothesis we supposed that planning activities in SMEs are initiated by company owners. Based on results we confirm this assumption in full extent. We have found out, that in 61 % SMEs owner/owners are responsible for incentives in planning process, CEO in 12 % of companies and TOP managers are active in 10 % of companies. Common employees are taking part in planning process just in 10 % and external sources in 7 % SMEs. Outcomes from such findings tell us that people in charge are not willing to delegate or possibly even they have no possibility to delegate partial planning or setting of goals to subordinate units.

Third hypothesis was dealing with controlling process in companies. We assumed that it is realized at least once per month. According to results we are forced to confirm it just partially, in limited way. Just 2 % of companies involved into research are not realizing control activity at all and another 2 % are performing control less than once per year. 31 % of SMEs are controlling their plans once per month, 13 % once per week, and 9 % once per year. 18 % SMEs controlled plans randomly and 7 % just in case of "bad" development and deviations from planned results.

Research in selected SMEs and consequent analysis showed us that even small and medium sized enterprises do not avoid to planning process, it may happen that they did so just in case of emergency. Plans and planning is not important management function for them and they prefer other part of managerial process. Most of them are concentrating just on present condition rather than on future development.

As a short recommendation we can state:

- to create a system of corporate goals and consequently system of corporate plans which fits to a size of company and organization

chart. This is mainly in medium sized and big companies considered to be a standard, but it fails or misses in micro and small enterprises;

- delegation is necessary otherwise manager/owner is trapped in maze of activities and employees feels to be excluded;
- SMEs frequently miss strategic goals and therefore they do not know where the company is directed or what is supposed to become, to offer. It is surprising mainly because of fact, that in most cases just owners are responsible for planning;
- system in management should be created, control can not be missed. Lack of employees should cause to cut down the frequency of controls, but it is not possible not to control. Otherwise no plan is required. Moreover in case of quality management systems control is absolute strict condition;
- even in case of disadvantages which perceptible planning's advantages overwhelm and make whole management to be systematic, effective, inputs to be minimized and outputs maximized.

Of course, there are some companies which consider planning process to be important, but still this opinion is not widespread. In many companies planning process is just in hand of owners and therefore it entails certain courage to delegate responsibility and activity even to subordinate departments. Surely, it is not a case of micro enterprises, in which many times owner is the only person in charge or only person and employee. But small and medium sized enterprises are suitable for delegacy. It would save the time of TOP managers and subordinates would participate on company governance. And to employ satisfied and motivated people is something what can not be bought. Therefore it is up to managers to ensure that there will be a room for everybody, with appropriate responsibility and of course, later with appropriate results.

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