Performance Measurement and Management

edited by
Bartłomiej Nita

Publishing House of Wrocław University of Economics
Wrocław 2012
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**STRATEGIC BUSINESS PLANNING IN YOUNG SMALL AND MEDIUM ENTERPRISES**

**Summary:** Many SMEs are still faced with the problematic fact that their corporate structures and processes are not designed for efficient development and market positioning and there is a lack of appropriate methods and tools. SMEs are often inefficiently targeted to the internal or external demands for services. The following key questions are answered in this article: 1) Which studies are available in terms of strategic planning in young SMEs? 2) Which aspects should be considered in the implementation and control of these instruments?

**Keywords:** strategic planning, SME.

1. **Introduction**

Although not in the focus of the public, small and medium-sized enterprises (SMEs) prove critical in industrial societies and the economic structure [Brüderl, Preisendörfer, Ziegler 1996, p. 11]. More than 99% of companies in Europe are SMEs; in Germany, they provide nearly 70% of the jobs. In particular, start-ups and young companies – as a sub-group of SMEs, with a usually low number of staff and scarce resources – they are more and more important as factors in the economy [Schwarz, Grieshuber 2003, p. 1] and they are fundamental for the preservation and development of the economy. The promotion of business start-ups and young companies is therefore an essential component of economic policy objectives of the European Union and many of its member states. The focus is to increase the number of businesses as well as the survival rates of these SMEs in the EC. The reason for this is that the risk of failure for these young companies is particularly high, especially in the early years after founding [Kirchhoff, Acs 1997, p. 167]. An estimate of the rates of new businesses in Germany is 40% in the first and 90% over the next ten years [Timmons, Spinelli 1999, pp. 52ff.]. Given these high rates, the search for factors affecting the success of SMEs is systematically becoming of higher importance for the economic and labour policies [Cooper, Gimeno-Gascon, Woo 1994, pp. 371ff.], SME managers and the founders of young companies and their stakeholders. In the scientific literature there is a gap in the research on strategic planning in young SMEs. Therefore, this article will find a solution approach for this situation in the form of reviewing and
presenting existing studies. The research method is the analysis of existing studies, summarizing the recommended procedures and instruments for strategic planning.

2. Empirical studies of SME

Strategic planning in the view of Rue, Ibrahim [1998, p. 24] and Kraus, Harms, Schwarz [2007, p. 375] was a factor deciding about the success of small and medium companies. Alternative developments can be investigated and uncertainty can be reduced [Honig, Karlson 2001, pp. 13ff.]. Strategic planning plays an important role for the long-term success of SMEs. Griggs [2002, p. 129] summarized in a meta-analysis that the existence or absence of strategic planning has an impact on the survival of SMEs. Kargar, Parnell [1996, p. 110] found that the probability of survival for a non-strategic planning company is considerably less than for strategic planning. Risseeuw, Masurel [1994, p. 19] concluded that ineffective strategic planning is often the main reason for the failure of a company. Perry [2011, pp. 201ff.]; Delmar, Shane [2003, pp. 1165ff.; Jungbauer-Gans, Preisendörfer [1991, pp. 987ff.] showed that planning decreases the failure. After a literature review of Rauch, Frese [1998, pp. 5–34], the key to the success factors is in the interaction of many factors. A partial analysis provides only limited results. The success of the company’s founder compares with the possibilities for actions and action strategies. It is possible that various factors need to be divided into the personality characteristics, the human capital (knowledge and experience) and the environment. Strategic business planning is more used in larger companies, as well as in organizationally highly established companies. In numerous scientific empirical studies the available knowledge shows that SMEs do not have strategic business planning or the planning is more random, unstructured, poorly or not operated [HTW Aalen 2007].

How can strategic behavior and strategic business planning in small and medium enterprises (SMEs) constitute an explanation? Are there any differences in comparison to large companies? In empirical studies, strategic planning was more often explained for large businesses, seldom for SMEs. In the literature review by Matzler et al. [2003, pp. 152ff.], they found that in the seventh largest German business journals in the period between 1990 and 2000, only 15% of the articles dealt with the subject of empirical studies on strategic management set. Löffler [1995, p. 157] investigated, in his review of 129 empirical studies, the relationship between strategic business planning and business success. The majority of these studies shows that larger firms often have a formal strategic planning tool, SMEs not. They also found a causal relationship between the intensity of strategic planning and financial operating results. Thirty-four out of forty-eight studies just confirmed this positive relationship.

Other meta-analyses of Gooding, Wagner [1985], Capon, Farley, Hoenig [1990], Boyd 1991] and Leitner [2001] showed that the company size is not a reason for business success. The company size has no causal significance here, but rather a facilitating function. In a further analysis of the studies, Löffler even concludes that for
“small businesses [...] the missing implementation of a formalized planning system even negative impact on company performance” [Löffler 1995, p. 192]. Overall, what the studies examined was that there were a variety of intervening variables, for example, flexibility, coordination, communication, conflict, information and motivation to the companies planning structure. The causal position often varies. An interesting elaboration on the issue was presented by Welter [2003, p. 209], who analyzed over 56 empirical studies together. Many of these studies found out that more than half of the SMEs in Germany have no strategic concept. Only 25% of them have a one-year strategic plan and 22% of the companies with more than 50 employees have more than one year planning [Welter 2003, p. 1]. Other studies emphasized personality factors such as the entrepreneur. The strategy genesis requires a confrontation “with process and content, statics and dynamics, constraints and inspiration, the cognitive and collective, the planned and the learned, the economic and the political” [Mintzberg 1990, pp. 208–209]. Thus, the strategy is a complex and dynamic process with many influences. The meta-analyses by Schwenk, Shrader [1993], D’Amboise, Bakanibona [1990] allowed finding out that there is a significant connection between planning and financial success. Many studies indicated company’s success as a result of formalized planning and confirmed the models of rational choice and strategy development for SMEs.

Many of the studies confirmed that SMEs planned in a rather unstructured and sporadic way. This means that rationality, which is a clear demand in a planning systematically, does not exist in practice. Rationality in decision-making can be described as more “formal principle of the decision logic” [Bantel, Osborn 1995] with logical and normative consequences and is not necessarily equivalent to the actual behavior in SMEs. Factors, such as the family environment of the entrepreneur or his or her personality, were found in the studies by Cromie et al. [1999], Reid et al. [1999] and Kuratko, Hornsby, Naffziger [1998]. These factors of family ties (the future) or individual nature (autonomy, personal growth, income) cannot be adapted to the meaning of profit maximizing. Simon [1959, p. 262] developed the same understanding of the model of limited rationality. This means that the entrepreneur follows satisfactory goals, according to the principle of “satisfying” (maximizing utility). The entrepreneur aims at a market share, revenue or profit and does not reach the absolute maximum profit. The decision-making process reflects the desire to make the best decision under given circumstances. Dean, Sharfman [1993, p. 589] speak in this case about “procedural rationality”.

Incremental processes of strategy formation can be derived, according to Schwenk [1995], Eisenhardt, Zbaracki [1992], if the entrepreneur operates unstructured to decision-making. The objectives of the business activities were created during the course of searching for information. On this subject, Mintzberg [1978, p. 945] explained the patterns of this in the case of planned, but unrealized strategies and unintended, but realized through (emergent) strategies. Many entrepreneurs often remain in the chosen strategic planning, due to investments, strategic planning
in the set. In the case of this procedure, the individual failure will grow and end in different decision-making defects [Schwenk 1988, p. 44]. Previous successes, the incorrect treatment of underlying information or information representative of past policies can influence strategic planning [Wiswede 1995, pp. 85ff.].

The explanation may include the theory of cognitive dissonance according to which the entrepreneur selected not the alternatives in the planning decision [Radetzki 1999, pp. 90ff.]. This means that entrepreneurs often follow their previous decisions, they do not search for strategic alternatives or they take existing strategies [Lyles, Thomas 1988, p. 136]. Decision-makers act in the way averse to risk and do not like the unknown, long-term commitments and possibly uncertainties uncertainty. If they expected changes in the environment or disadvantages, this action could be understood. In this case, the conflict theory of “defensive avoidance” [Lyles, Thomas 1988, p. 136] or something colloquial by “muddling through” [Lindblom 1959] is employed.

To sum up, as a result of the studies on the SME planning Welter [2003] found out three different courses of strategies: “muddling through”, “respond-acting” and “design”. Welter sees, in these three basic types of strategy profiles, the origin of the conflict theory in decision-making. The decision-making and the genesis is often a back coupling strategy process and leads to learning effects and dynamic view. Empirical studies show that decision phases follow a certain procedure, but they also (perhaps) can run simultaneously and can be repeated. This confirmed the theory of Mintzberg et al. of the “unstructured” strategic decision-making [Mintzberg 1978, pp. 267ff.].

Among other things Fritz [1990, pp. 91ff.] found out more than thirty different operationalizations of the concept of success. Success is mainly represented as a quantifiable cash flow and its size refers often to company earnings [Beutel 1988, p. 14]. Empirical studies can be differentiated by output related financial ratios, such as profitability, turnover, productivity, etc. [Rhyne 1986, pp. 423ff.; Gibson, Cassar 2005, pp. 207ff.].


In this analysis, Kraus, Harms, Schwarz [2007] concluded that 73% of the studies had a positive relationship between strategic planning and success. SMEs and small businesses indicated only 56.3% of small businesses in relationship with planning and success. The “planners” among the studies examined a good education and appropriate experience with demonstrated planning. Difficulties arose from the fact that various studies had different methodologies, different means of operationalization,
methodological errors or non-comparability of populations. Kraus, Harms, Schwarz [2007] examined in another study (see “Munich establishment survey”) nine empirical studies. In this study, “Munich foundation study”, approximately 1,850 founders of companies were interviewed and it was found that thorough planning increases the probability of survival and the group of those who have carried out formal planning was more successful than the others [Brüderl, Preisendörfer, Ziegler 1996, pp. 160ff.; Jungbauer-Gans, Preisendörfer 1991, pp. 987ff.]. Strategic planning has an impact on survival [Stearns et al. 1995, pp. 24ff.; Berry 1998, pp. 455ff.], growth, development and success of young companies, but the application of strategic planning in small business is a young discipline. Deimel, Kraus [2008, pp. 155ff.] carried out an empirical study of strategy management in small and medium enterprises. They also noted aspects which suggest leaving previous scientific studies, namely that strategic management in SMEs was not often available and the strategic plans were more intuitively planned instead of careful planning.

In the period from June 2004 to January 2005, an empirical study was done in the form of a structured written questionnaire in 1,000 SMEs in Germany, Austria and Switzerland with the “key informant approach” [Silk, Kalwani 1982, pp. 165ff.] with the owner or manager. The basis, the address database of SMEs, came from the Credit Reform. The response rate was 10% with 101 questionnaires. The quantitative survey showed that 89% of the enterprises are expected by means of strategic planning to get a more successful position in the competition. Twenty-seven point five percent did not carry out strategic planning. Reasons for this are in the lack of time resources and urgent requirements of their daily business.

3. Case study

As part of a 2.5-year research study from 2009 to 2011 in Germany, 17 young SMEs were involved in a strategic planning concept. The target was to find out how these young SMEs can successfully implement different strategic planning instruments. The solution how to work with these instruments was to proceed the project in different phases. The research team created a model and worked with different methods, for example, workshops and discussion with the management. The focus was to create knowledge and find a successful way to implement and control these instruments. In each research phase there was a necessity of the time horizon instruments and the control of the results. This research project was also included in the dissertation at the University of Wrocław. Fourteen out of the seventeen young SMEs took part in this project up to the end and were successful and had, for example, an increase of their sales and new products and services after the project. The strategic planning was always the focus of strategic controlling processes with the priorities of support, the implementation of strategy, the evaluation and control.
4. Conclusion

To summarize the analyzed studies and the case study, strategic planning is very important especially for young SMEs for a healthy and sustainable growth. There are many possibilities for using existing instruments. The existing research gap can be bridged by showing that young SMEs examined the used instruments and optimized their methods in structured planning structure by adopting relevant information. Continuous viewing of the adapted strategic instruments is important for a company to survive. To find a conclusion for the problems with young SMEs, we can summarize four important causal hypotheses:

Formalization refers to the written fixation of corporate objectives, strategies and plans [Pearce, Freeman, Robinson 1987, p. 659]. It helps ensure that a better understanding of themselves and their environment and thus gaining strategic alternatives can be easier to identify [Lyles et al. 1993, pp. 38ff.]. By formalizing structured information, it can be displayed easier and links are made visible, revealing a lack of information and support for decision situations. It is believed that the level of formalization is growing with increasing of the firm size (or age) [Matthews, Scott 1995, p. 38], for example, through greater availability of resources. Conversely, this means that especially young SMEs have fewer resources in terms of time, staff or knowledge, and hence a less formalized plan.

K₁: Young successful SMEs are those that have already formally early planning imported. This increases the degree of formality with increasing age, or company increasing size.

The time horizon of strategic planning is usually stated, especially for large companies, with a minimum of three years [Rue, Ibrahim 1998, pp. 24ff.]. The long-term goals and plans to achieve those goals are considered as an important factor of strategic planning. A three-year time horizon seems useful for large companies, but for young SMEs it could be too long. The efforts of the management should initially operate flexibly, but often they do not see relevance or have too little experience, resources, knowledge and therefore they are not able to plan ahead [Ramanujam, Venkatraman 1987, pp. 19ff.].

K₂: Young successful SMEs are those that have longer time to plan ahead. They use a time horizon between 1 and 3 years.

Strategic planning tools are tools that need the extraction and structuring of information for the basis of the strategy [Christensen et al. 1982, p. 186]. The majority of planning tools has been developed for large companies. As SMEs and in particular young SMEs are usually highly heterogeneously formatted, it seems that the direct transmission without modification does not make sense [McKiernan, Morris 1994, p. 32]. Moreover, the limited knowledge about the market and company’s own insecurity and the high efficiency of the use of planning tools will limit these. So it is presumed that it is easy to implement tools (such as environmental analysis, analysis of figures) also in SMEs; however, there are a multitude of complex tools (e.g., Bal-
Strategic business planning in young SMEs

anced Scorecard) in SMEs, which are unknown or cannot be applied (e.g., because only one product, or the company itself is in the first phase of the life cycle).

In the case study the planning horizons were previously used. As part of the study, it was important to have one-year and three-year plans. Those different plans were implemented at the beginning of the research project. This was done under the aspect of sustainability and the verifiability of the developed measures. Those plans were also created in connection with the business plans which were used for the information of stakeholders. Further knowledge is that the long-term objectives and plans must be considered under the aspect of flexibility and adaptation to the growth of young companies. Especially young SMEs need to adapt to market ratios permanently in relation to their growth phase. Young SMEs grow rapidly and therefore their knowledge and experience expands.

**K₃**: Young, successful SMEs are those which use increasingly different “executable” strategic planning instruments.

**Control** is the process of reviewing recent developments in relation to the forecasts taken in the past. It is generally accepted that control is a necessary point to serve the best achievement. Current target/actual comparisons are important in order to identify targets earlier and set learning in motion. It should be assumed that learning from the mistakes of the past contributed to higher success rates.

Current developments in the case study were continuously monitored. Forecasts would be reviewed and after it new decisions were made. In this case it was especially important to gain experience and create a learning process to avoid in the future the management errors from the past. This control function ultimately leads to the fact that in the consciousness of management “flexible iterative planning” must be used. Measures in the evaluation of the key questions were also analyzed. Control mechanism were initiated and developed criteria were considered in a comparative way. These audit activities must be permanently present in the awareness of management.

**K₄**: Young, successful SMEs are those that look to the reasons for past success and actively analyze the reason for the future planning.

**References**


STATEGICZNY BIZNESPLAN W MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTWACH

Streszczenie: Wiele małych i średnich przedsiębiorstw konfrontuje się z problemem, który polega na tym, że ich struktury i procesy uniemożliwiają skuteczny rozwój i pozycjonowanie na rynku. Brakuje właściwych metod i narzędzi do tego celu. Często dostarczają one informacji na potrzeby zewnętrznych i wewnętrznych wymagań w sposób nieefektywny. W niniejszym artykule autor odpowiedział na następujące pytania: 1) Co badania mówią o planowaniu strategicznym w młodych MŚP? 2) Jakie aspekty należy uwzględnić w realizacji i kontroli?

Słowa kluczowe: strategiczne planowanie, małe i średnie przedsiębiorstwa.