

Small Business Operators, Do They Plan? A Study of Selected Small-scale Businesses in Nuwara Eliya District

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ABSTRACT. *Small businesses are small in nature but unique in several ways and contribute fully to upscale the rural economy. This sector provides opportunities for owner-managers to satisfy personal objectives whilst achieving their business objectives. Small businesses are often sources of new ideas, materials, processes and services that larger firms may be unable or reluctant to provide. The major objectives of this study were to identify the nature and the planning behaviour of small business operators in a selected location and find out the relationship between planning and business success. The number of employees and the extent of new product development were treated as success indicators in this study. Data were collected through the case study approach. Both primary and secondary data sources were used. Secondary data were useful for establishing the small business context of Sri Lanka. Sample consisted of randomly selected 44 small-scale businesses. According to the findings, business growth is found to be retarded by lack of planning, lack of proper record keeping, limited access to capital and un-conducive regulatory environment. Findings also revealed that planning is highly correlated with business success. Of the sample, about 45% of the business operators highly adopted planning whereas about 25% moderately adopted planning. However, about 30% of them have never adopted any sort of planning. Business operators who carried out planning were found to be mainly concerned with planning of short-term business activities. Their effort was heavily concentrated on day to day operations of the business as well as acquiring finance, new product development, new packaging, introduction to the new markets, etc. Majority of the successful small business operators were found to be carrying out informal planning.*

INTRODUCTION

Small business is one that is independently owned and operated and is not dominant in its field of operation (Megginson *et al.*, 1996). The committee for economic development states that a small business has at least two of the following features: Management is independent, since the manager usually owns the business. Capital is supplied and ownership is held by an individual or few individuals. The area of operations is primarily local, although the market isn't necessarily local. The business is small in comparison with the larger competitors in its industry.

Generally, a favourable result from the business operation means business success. Serving an adequate and well-defined market for the product, acquiring sufficient capital,

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recruiting and using human resources effectively, obtaining and using accurate information, coping with government regulations effectively, having expertise in the field on the part of both the owner and the employees and managing time effectively leads to small business success (Megginson *et al.*, 1996). Accounting ratios (profitability, efficiency, liquidity, *etc.*), new product development, job opportunities (direct and indirect), acquiring new resources, penetrating new markets and sales volume can be used as a measuring tool for business success (Corman and Robert, 1996).

Planning is the process of setting objectives and determining actions to reach them (Megginson *et al.*, 1996). Planning is an opportunity to mentally experiment with ideas, which represent the valuable resources of a firm before committing the resources themselves to risk (Croman and Robert, 1996). Planning is usually divided according to the nature of planning and the time frame; *i.e.*, strategic and operational planning (Megginson *et al.*, 1996). Planning makes more opportunities to the small enterprises and on the other hand it has some disadvantages also (Croman and Robert, 1996). Relative size, flexibility and simplicity of structure of the small businesses reduce the reaction time to environmental change (Crawford and Ibrahim, 1987). Formal planning structures are unlikely to be found within small enterprises and they also lack appropriate planning tools (Gibb and Scott, 1985). Comparing with larger enterprises, small businesses lack in resources and they are not going for a resource and time consuming formal planning. Therefore adopting to the formal planning process is either rare or absent in small businesses (Robinson and Pearce, 1984; Gibb and Scott, 1985). Small business operators are able to run their businesses based on "informal plans" and they are involved in developing informal plans using their experiences, feelings and intuition about environment, industry and business entity (Smith, 1967; Robinson, 1979). Planning in small enterprises is unstructured, sporadic, incremental, informal, reactive, incomprehensive and owner managers engage in strategic thinking without formulating plans (Crawford and Ibrahim, 1987). Planning should be the first step in performing a series of managerial functions because it sets the future course of action for all aspects of the business (Megginson *et al.*, 1996). This requires original thinking, takes time and is difficult to carry out, but it does help one prepare to take advantages of promising opportunities and cope with unexpected problems (Jhonson and Scholes, 1999).

Knowledge of the nature of planning of small business firms is very limited due to limited research in the Sri Lankan context and this provides better ground for this study. This paper focuses on identifying the small business context, nature of planning of small businesses and find out the relationship between planning and business success among selected small-scale businesses.

METHODS

The study's random sample consisted of 44 small business operators in the Nuwara Eliya district. These firms were represented by ten different industries, *viz.*, mining and quarrying, food and beverages, textile, wearing apparel and leather products, wood and wood products, paper, paper products, printing and publishing, chemicals and plastic products, non metallic mineral products, basic metal products, machinery and equipment and other manufacturing industries.

Data were collected through the case study approach. Case study refers to a rather intensive examination of some single unit (Thakur, 1997). The case study approach tries to see the individual, his/her situation and his/her behavior as the total configuration of factors that affect him/her through time (Miles and Huberman, 1998). Several types of data gathering techniques were used to get case study material; such as in-depth interviews, questionnaires, field observations and information were collected from small business operators. Both primary and secondary data sources were used and data were collected during the first six months of the year 2000. Secondary data were useful for establishing the small business context of Sri Lanka and these were mainly collected from published sources of the Central Bank of Sri Lanka and the Industrial Development Board.

As a basis for investigation, a hypothesis was formulated as follows:

H_0 = Business success is independent from the existence of business planning within the small-scale business.

Small businesses were categorized into 3 groups according to their level of business success; high, moderate and low level of business success. The criteria used for grouping was number of direct employees and the number of new products developed during the year. Steps of the strategic planning process among small business operators developed by Robinson (1979) was used to create the adoption index. Self-administered, structured questionnaire based on the steps of the planning process was used as a measuring tool and scores of each and every step of the planning process was used for categorization. Adoption to the planning process was evaluated by small business operators themselves by using scores. Scores allocated to each of the steps were ranged from 1-5. Computation of the small business adoption score for the planning process was based on summation of scores from each and every step of the planning process. Subsequently small business operators were grouped according to their level of adoption (i.e., based on the points scored) of the planning process; viz., high (80-120 points)¹, moderate (40-80 points)², and low (0-40 points)³. The chi-square distribution was used as test of "goodness of fit" for the comparison of a number of frequency distribution and for finding association and relationship between the attributes.

RESULTS AND DISCUSSION

Small business context: nature of the sample

Secondary data analysis was useful for establishing the small business context of Sri Lanka. This shows that no industry is growing faster than services and this trend is evident in both the number of new businesses being created and the number of new jobs

1 Small business operators satisfactorily followed 66.67-100% of the planning process and obtained highest total scores.

2 Small business operators satisfactorily followed 33.33-66.67% of the planning process and obtained mid level of total scores.

3 Small business operators satisfactorily followed 0-33.33% of the planning process and obtained low level of total scores.

being created. Especially most of the growing industries are dominated by small private business organizations. A majority (36%) of the small-scale businesses belonged to the food and beverages category.

Study findings were useful for analyzing the small business context in the Nuwara Eliya district. The mean size of the business was six employees and the average indirect employment generated by the small businesses was eight. The majority of the small business owners were in the age group between 30-50 years with an average age of 41 years. Ninety-five percent of the small businesses were owned and managed by the businessmen, and businesswomen managed only a very small number (5.36%). The small business operators studied had reached the secondary level of education. They also had long years of business experience (average 14 years).

According to the findings, the main motivation behind starting their own businesses was to seek independence (*i.e.*, to be free of outside control). They were proud of their position as owner-managers. They were willing to work long, hard hours to reach their goals. The most fascinating feature among successful small business owners was the willingness to provide better customer service and care and 83% of the sample believed that their success depended mainly on it. Successful small business operators exhibited some unique personal characteristics (Kodithuwakku, 1997) *viz.*, hard work (of the sample 95% of the successful small business operators were working more than 12 h per day); deferred gratification (very few were concerned about leisure and entertainment); moderate risk taking ability (of the sample 67% showed their ability to take moderate level of risks), self-confidence, honesty, trustworthiness, providing better customer care and service (83% believed that this creates loyal customers), dedication to their business and willingness to delegate responsibilities.

Of the sample, 77.5% of small businesses belonged to the family business category. Family members were the employees of the business and family commitment was found to be very high. Participation of family members in respective businesses also played an important role in the business success. Male members actively participated in decision-making whereas females played supportive roles. Nearly 75% of small business owners were from poor or lower-middle class families and they had started their business careers as a part time job.

Governmental, semi-governmental and private organizations were the leaders in providing technical and financial assistance at the start-up stage of the business. Of the sample 62.5% businesses were established with the financial assistance of government and private banks. These businesses also received financial assistance from family members, friends and informal financial sources such as village moneylenders. Furthermore, 100% of the sample had never undergone management training. Successful owner managers were members of widely distributed social networks (Kodithuwakku, 1997; Kodithuwakku and Rosa, 2001). About 95% of the small business operators obtained business information from informal channels like friends, relatives, loyal customers and input suppliers.

Planning and business success

Of the sample, about 45.45% of the business operators highly adopted planning whereas about 25% moderately adopted planning. However, about 29.55% of them have never adopted any sort of planning (Table 1).

Table 1. Level of adoption to the planning process.

Level of adoption	No. of small business units	Percentage
0-40: Low	13	29.55
40-80: Moderate	11	25
80-120: High	20	45.45

Furthermore, of the sample about 36.36% showed high business success and about 34.09% showed moderate level of business success and about 29.55% of small businesses showed poor business success (Table 2).

Table 2. Level of business success.

Level of business success	No. of small business units	Percentage
1. >6 employees + >1 newly developed product	16	36.36
2. >2 employees + 1 newly developed product	15	34.09
3. >1-2 employees + no newly developed products	13	29.55

The hypothesis predicted that business success is independent from the existence of planning within the small business. Results of the Chi-square analysis indicated that small business success is influenced by the existence of planning. Findings revealed that about 62.5% of those who indicated a high level of adoption of the planning process had a high level of business success. According to this about 37.5% of other factors also were responsible for business success. These were prior identification of market needs, product quality, proper handling and packing procedures, availability and access to transport facilities, capacity to avoid the seasonality of production, ability to meet the market demand and so on.

Study findings also revealed that small business operators heavily focussed their effort on short-term operational plans (about 95% of the sample) and avoided formal planning procedures. Ninety three percent of the small business operators were making short-term plans. These short-term plans were also not in written form and mainly concerned with acquiring finance, new product development, new packaging, introducing new markets *etc.*

CONCLUSIONS

The main aim of this study was to identify the nature and the planning behaviour of small business operators in a selected location and to find out the relationship between planning and business success. In this context, number of employees and expansion of business through diversification and new product development were taken as a proxy to the success of the small businesses studied. Data were collected from a sample of randomly selected 44 small business operators of which about 77.5% belong to the family business category. Case study strategy was used as the main data gathering method.

Findings revealed that about 45.45% of the business operators were utilizing planning, at a very high level, as a management tool whereas 29.55% had never carried out any sort of planning. When it came to business success, it was revealed that about 36.6, 34.09 and 29.55% of them achieved high, moderate and poor business success levels respectively. Hypothesis testing revealed high level planning leads to high level of business success. The business operators who carried out planning were mainly concerned about short-term operational plans rather than the long-term business plans. These plans were also informal and not were in written forms. Implementation and development of these informal plans were based on their experience, feeling and intuition about the external environment.

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