

# Information Provision for Strategic Planning in Bulgarian SMEs

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## *Abstract*

*The information provision of strategic planning in small and medium sized enterprises (SMEs) is a subject that provokes the research interest due to the increased importance of strategic planning for the corporate development. This article - based on the results of a survey among 50 SMEs in Rouse region (Bulgaria) - analyzes some problem areas related to practical implementation of the concept of strategic business planning, and in particular the practice of providing information for solving strategic issues in SMEs. The aim is to highlight some typical information sources for the strategic planning in SMEs and to formulate some problem areas that need special attention and responsible action.*

**Keywords:** *SMEs, corporate strategic planning, information provision for strategic planning purposes.*

**JEL classification:** L26, M21

## **Introduction**

Strategic planning is aimed at determining objectives and resources which significantly affect the performance of a company, usually in the long run. To be useful, the strategy should be based on concentration of efforts and resources to implement a limited number of strategic decisions.

One of the important aspects, which are considered in making strategic decisions, concerns the information provision, necessary for the usage in planning methods, models and tools. Good ideas for improving the process of making management decisions have often failed not so much because of imperfections of the models themselves, but due to the absence of sufficient and qualitative information.

This paper focuses on issues like: to what extent business practices in small and medium enterprises (SMEs) are aware of the link between strategic planning, the need for internal and external information to ensure the strategic plans, and ability to provide relevant information sources. The survey partially answers to questions related to the organization of reporting and interpretation of planning and accounting information.

## 1. Review of the Bulgarian SMEs

The importance of small and medium sized enterprises (SMEs) to economic development is underlined in several documents<sup>1</sup>, focusing on the role of entrepreneurship, growth of enterprises and their competitiveness. The sector<sup>2</sup> constitutes 99.4 percent of all enterprises and 99.7 percent of the private ones. It employs 1 312 383 people or 39.2 percent of total employment of the Bulgarian economy.

The micro enterprises (1 to 9 employees) prevail, but their share in the total number of private firms is decreasing mainly at the expense of the increasing number and proportion of small enterprises. The number of small enterprises (10 to 49 employees) is quickly growing in comparison to the other groups of enterprises. The smallest group consists of the medium-sized enterprises (50 to 249 employees) with 1.9 percent share in the total number of private SMEs (see Fig. 1).

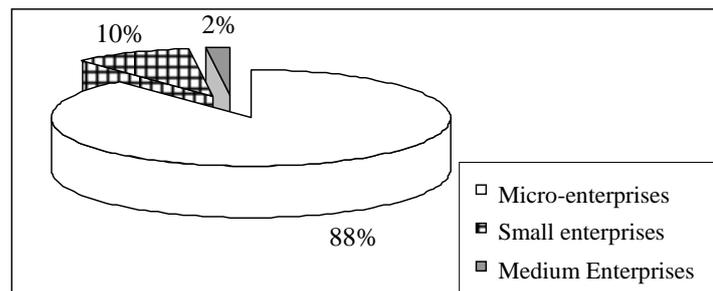


Figure 1: Share of enterprises in the total number of private SMEs (2007)

The sectoral structure in each of the separate groups is different due to the correlation between the size of an enterprise and the nature of production process. The most preferred industrial sector by micro enterprises is “Trade, repair of motor vehicles, personal and household goods”. Two are the most preferred industrial sectors by small sized enterprises – “Trade, repair of motor vehicles, personal and household goods” and “Manufacturing”, while the preferred sector by the medium sized enterprises is “Manufacturing”.

Statistical data for the Bulgarian economy reveals that the renewal of fixed assets in SMEs takes place faster than in large enterprises. However, the stronger innovative attitudes of SMEs do not correspond with a higher efficiency of their activities compared with large enterprises: as a rule profit margins in SMEs are lower than in large companies, although recently a convergence has been observed.

One of the reasons is that SMEs insufficiently use strategic planning as a tool for successful competitive struggle. According to an earlier study only 6.5 percent of SMEs

<sup>1</sup> Operational Programme “Development of the Competitiveness of the Bulgarian Economy 2007-2013” and “National Strategy for Encouragement of the SMEs Development 2007-2013” etc.

<sup>2</sup> Annual report on the state and development of SMEs in Bulgaria, 2007. Ministry of Economy and Energy.

admitted that maintaining and enhancing the competitive position of companies is connected in some way with knowledge and skills in strategic planning (Manager, 2003, p. 12).

## **2. Strategic planning in SMEs**

Strategic planning has been a modern refrain in the contemporary business management for decades. However, about strategic planning in SMEs has been spoken only recently. The interest is due to the awareness of SMEs' role and importance for the national and supranational economic development (Analoui & Karami, 2003 and Тодоров, 2004).

According to many researchers, strategic planning determines the essential nature and scale of business. It is based on the phases of the life cycle of products and is a direct result of accumulated managerial and entrepreneurial skills (Analoui & Karami, 2003). In order to perform its functions, strategic planning should be based on timely and accurate information about the internal factors (human resources, fixed assets, financial capacity, etc.) and the external ones (position in the industry, competitive opportunities etc.).

Principally, the strategic management in SMEs is concentrated in the owner's (entrepreneur's) hands. Often the owner is also the manager of the enterprise. This is why many publications on small business seek to establish a relationship between strategic planning and personal characteristics of the entrepreneur. Some of the attention is directed to the professional training and the previous experience of the entrepreneur gathered in a large companies (Richbell & Watts & Wardle, 2006).

However, the experience of the entrepreneur gained in a large company has a negative influence on the usage of the tools for strategic planning in SMEs. There is a tendency to mechanically transfer strategic planning models and methods from large to small businesses without sufficiently taking into account their relevance to the activity specifics and development of this sector.

An important problem is the data provision for these models and methods. This refers primarily to data required for the assessment of the firm competitive position. In most cases information provision requires considerable resources and efforts that SMEs often do not have.

Most of the known techniques and models can be made suitable for strategic planning after some adaptation. In the specialized literature there are good examples of such adapted models and methods. To mention some of them: Michael Porter's "Five Forces Competition Analysis Model", Johnson and Scholes's "Cultural web", the Kolb's "Learning Cycle", the "TKJ method", etc (Тодоров, 2001).

Also, attempts have been made to adjust techniques such as the "Growth-Share Matrix" of BCG or the "9-cell Matrix of General Electric", which at first sight seems inappropriate to be used by SMEs. Internal accounting information related to costs, revenues and evaluation of effectiveness by product range

contribute indirectly to the assessment of the competitiveness of SMEs, especially through adapting the BCG model. Subsequently, this data is compared with statistical data for the industrial sector to determine the quadrant parameters of the matrix (Папазов & Михайлова, 2009).

### 3. Research methodology and results

The actuality of the topic on information provision of the strategic planning holds up the interest in continuing the studies on the assessment of extent to which the link between strategic planning and reporting in SME has been revealed and the possibilities for the usage of external information sources for strategic decision purposes. The survey presented below is the ultimate result of the scientific interest of the authors in this field.

The survey was implemented on the basis of a prior drawn organizational plan, which specifies the units and the period of the survey, the method of recording and presentation of data, the forms of organization of the survey, the place of the survey, the likelihood of admission of errors etc. The sample consisted of small and medium enterprises from different sectors, which are situated in Ruse, Northeastern Bulgaria (see Fig. 2). Units of the survey have been 50 companies. The crucial moment for the survey was 01.04.2009 and the applied forms of organization were the self-survey and the correspondence form, in which data had been collected by means of a questionnaire within a certain deadline with a preventive logical and arithmetical check.



**Figure: 2 Rouse region (Bulgaria)**

The information necessary for the analysis had been entered in questionnaire cards. The making of the questionnaire cards had been subordinated to a sequence of common and specific requirements and conditions.

The data filling in the questionnaire was done by the manager or a person who disposed of the greatest knowledge about the specifics of the enterprise.

Bearing in mind the initial agreement with the representatives of the firms the administered questionnaire was anonymous. The expertise of other organizations was used in the formulation of the questions.

The questionnaire card had included the following main aspects:

- Strategic planning in SMEs – importance, models, problems.
- Using of the reporting and external information for strategic planning purposes in SMEs.

The specific questions that were relevant to SMEs and the answers could be summarized as follows:

- Are the entrepreneurs or managers aware of the nature, importance and range of strategic business planning?

By placing this question the investigators seek to examine whether managers of SMEs are aware of the specifics of the strategic planning and do they attach importance to strategic planning in the development of their companies. Approximately 60 percent of respondents answered positively to the question, as they represented companies engaged in manufacturing activities. Additionally, some of them added a note that they are familiar with the theoretical and methodological points of view, but as for practical implications many unclear issues arose. This corresponded to the answers of the question below related to the need of external assistance in strategic planning.

- What models of strategic planning are managers aware of?

By asking this question one can assess whether managers are familiar with the most popular models for strategic planning and eventually seek for any form of adaptation of these models for SMEs' planning purposes. Among the most frequent responses (approximately 70 percent) were the Matrix of the Boston Consulting Group and the Model of General Electric created in their initial version (for the needs of large companies). Adaptations for using these techniques for strategic planning in SMEs were unknown.

- Is there any need for external help in strategic planning and what specialists could be most helpful?

The aim is to investigate whether managers in SMEs have skills and experience for strategic planning and plan implementations and to what extent they are ready to attract external consultants. The survey results showed that in Bulgaria SMEs had principally been looking for an external help on strategic planning issues throughout their accountants, 90 percent of whom work as outsourcing companies or as free-lanced specialists. The Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA), the business centres and other organizations assisting the small business had rarely been asked for expertise (7 percent of the managers in question). The fact that accountants have a key role in providing strategic information processes in SMEs is not surprising due to the fact, that "the interpretation of accounting information is related to the motives and objectives of persons who benefit from it" (Филипова, 1998). In this case entrepreneurs and managers who significantly influence the business decision making appear as such.

„In many countries small business accountants play an important role as business advisers for small firms in addition to providing basic accounting services. A study in Norway reveals that the quality, rather than the continuance of the relationship between the firm and the authorized accountant, is an important

antecedent for the degree to which small firms use accountants as business advisers” (Gooderham, 2004). In Albania, a significant part of the SMEs indicates that they are willing to look for management assistance from small business associations, but unfortunately it is difficult to name an organization, respectively to come into real contact with it (Kume & Koxhaj, 2009).

- Where does management receive information for strategic planning purposes?

The idea is to investigate the main information sources of SMEs and hence the possibility for using different models for strategic planning. The survey showed that entrepreneurs (managers) of the Bulgarian SMEs mainly use accounting information for taking important management decisions (87% of the questioned), and only few of them use external information (e.g. statistics data, analysis of BSMEPA, analysis of business chambers, etc.). This is indicative of the predominance of the internal analysis and it goes together with the responses on the need of consultancy assistance and help in strategic planning.

- What are the most frequently used sources of accounting information in taking strategic decisions?

The survey shows that three main sources of information had been used in management of SMEs. They were the balance sheet, profit and loss and the cash flow statement. This information was used for planning and controlling purposes.

However, in the contemporary Bulgarian SMEs the organization of accounting does not ensure the supply of sufficient information for the needs of the strategic planning. For most SMEs analytical reporting and accounting policies are not in accordance with management needs. There are no clear rules about gathering information without duplication and suitable for different strategic models.

The presented survey among SMEs in Rousse region, Bulgaria, is an attempt to assess the extent to which managers (entrepreneurs) realize the relationship between strategic planning and internal financial information and eventually use external data sources for strategic planning purposes. Although the data is collected through a survey of 50 SMEs in Rousse region, it seems to be fairly valid for all small sized enterprises in Bulgaria. The survey results show that entrepreneurs (managers) of SMEs are looking for information related mostly to operating profit. In accordance to the theory, “it is clear that in a meaningful aspect the task of corporate strategy is to identify the most important objectives of the firm development and to find adequate tools to achieve them. Given that the profit is an immanent objective of SMEs, the next important action is to plan specific product(s), which will be supplied on the market” (Паназов, 2006). For this reason only the accounting information is not sufficient for strategic planning in SMEs. It is desired to include statistical, marketing and other information that characterizes the environment, including competitors on the market, and use it in the so called “portfolio techniques” for analysis and planning. It is important that the strengths and weaknesses of SMEs are determined on the basis of realistic and objective data. For strategic planning purposes it is necessary to gather, store and aggregate information in such a way, as to allow later its further usage and revision with view

to taking subsequent corrective actions when deviation from the plan in respect to products, objectives and deadlines are found.

### Conclusions

Bulgarian SMEs are slowly becoming aware of the role and the importance of strategic planning as a factor for increasing of efficiency and competitiveness. Hence, a need for using methods adequate to the SME's characteristics appears. The main difficulties arise in information provision of such models and techniques. In solving management problems, a large part of SMEs managers are looking for assistance from their accountants. The accountants can provide and to some extent interpret internal (accounting) information, but they can not perform full strategic analytical or planning activities. This is because strategic planning does not only require the accounting data, but needs also marketing, statistical, legal, and other characteristics depicting the environment. Therefore, the need to look for competent assistance from public statistics institutions, as well as from organizations involved in actively supporting SMEs.

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