INVESTOR EXPECTATIONS OF BUSINESS PLANNING AND PERFORMANCE IN QUALIFYING SMALL ENTERPRISES

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A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, Johannesburg, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg
September, 2006

ABSTRACT

An important criterion in investment appraisal is the quality of the business plan submitted when finance is sought. This study explores investors' expectations of process and content aspects of planning among early-growth-stage qualifying small enterprises and their expected future performance. In-depth semi-structured interviews were used to obtain the views of investors involved in funding these ventures. The main findings from content analyses were that investors expect formality in the planning process such as thought, testing, documentation, monitoring, feedback and controlling the business relative to the plan. Furthermore, the content of the business plan is relevant only to a limited extent but should cover strategic issues such as market, entrepreneur characteristics, product offering and financials in detail. Competitor orientation, environment-of-business, and staffing strategies should be concisely included. Investors primarily expect the financed venture to perform financially and other performance dimensions were viewed as subsets of the financial dimension but within reason, were influential on the propensity of the investor to allocate finance. Finally, it was found that investors share an equivocal perspective on the ability of Black Economic Empowerment to influence their decision making.

DECLARATION

I, Deano Govender declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Signature: ____

Deano Govender

22 September, 2006

DEDICATION

Dedicated to Garon Govender for being a role model – Without your leadership, from an early age, I would not have accomplished this very fine achievement.

ACKNOWLEDGEMENTS

I wish to express my sincere thanks to:

- Valencia Jessica and Lois Jade for their support, loyalty, encouragement and understanding during a very demanding time.

- Dominik Heil, my supervisor, for his time, encouragement, direction and for being able to benefit from his experience.

- Bertus Venter of Samancor Chrome for sponsorship of the MBA fees and the costs of conducting this research.

- Louise Whittaker and Anthony Stacey for guidance in the research methodology.

- Tanya Botha of BHP Billiton Information Centre for her tireless efforts in assisting me with references and information searches.

- Ajith Haripaul for his constant motivation and being my source of strength to persevere in completing this research.

- Megan Paige Harrison for the depth of understanding of the qualitative research paradigm that I gleaned from her research, “Factors preventing bancassurers from gaining competitive advantage in the life insurance market”.

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GLOSSARY

BEE: Black Economic Empowerment

SAVCA: South African Venture Capital Association

SMME: Small, Medium and Micro Enterprises

QSE: Qualifying Small Enterprise

HDSA: Historically Disadvantaged South African

1 INTRODUCTION

1.1 Context of the study

Since South Africa obtained democracy, participation of previously disadvantaged people in the mainstream economy became an imperative to redress the imbalances of the apartheid era and to stimulate economic growth. BEE Com (2001: 5) states that “opportunities have been created and institutional support provided for black entrepreneurs and workers through strategies aimed at promoting small, medium and micro enterprises, workplace equity and labour standards.” From this government empowerment strategy, “Black Economic Empowerment became a buzzword in business circles in South Africa”, (Montsho, 2000: 2) and a flurry of initiatives ensued to stimulate economic growth via small, medium and micro enterprises (SMME’s).

BEE Com (2001) states that the private sector, since the early 1990s, embarked on a range of Black Economic Empowerment (BEE) initiatives, which included ownership strategies and proposals to stimulate economic growth. However, the 1998 stock market crash exposed funding weaknesses and resulted in a drying up of deals and funding. Financiers abandoned corporate BEE transactions due to their superficial nature. “… private sector activity took place in an ad hoc manner in the absence of … a coherent response from black business” (BEE Com, 2001: 5).

With the government’s focus on growing the small and medium enterprise (SME) sector to promote economic growth, and the general lack of private equity or collateral for loans among entrepreneurs, it follows that most SME entrepreneurs would either turn to “friends, fools and family” or they would turn to financing institutions or external investors for funding, particularly Black entrepreneurs within the context of Black Economic Empowerment. Financial support is needed for seed, start-up and early growth stage small businesses. Even in later-stage small businesses, financing is needed to expand the business, maintain cash flow and sustain growth. Businesses that are at the mature stages may often undergo management buy-outs, management buy-ins or secondary purchase / replacement, and even at these stages in the business life cycle, funding is needed.

Taylor (2001: 132) states: “Entrepreneurs need to articulate their business in a thorough and coherent business plan” when funding is being sought. Mazzarol (2000) states that formal business plans are viewed by most banks and enterprise development agencies as vital to success in obtaining funding for the small business. Therefore, SME entrepreneurs will be inevitably exposed to business planning in order to obtain funding from financing institutions or investors.

It is within this context that this study was undertaken i.e. economic growth via SME’s, Black Economic Empowerment and the need for funding of small business transactions. Therefore, investor expectations of the various aspects of small business planning and the perceived performance of the venture amidst South Africa’s transformation programme needed to be explored.

1.2 Focus of the study

The overall theme in this study centres on business planning as a factor that influences the propensity of financiers to allocate funds to small business entrepreneurs (Taylor, 2001). This section deals with how the research is bounded in order to create focus and is embedded in the purpose of the study.

The financier’s decision making in allocating capital to small businesses is dependent on the risk and rewards that are associated with such funding. Proimos & Wright (2005) state that professional investors are attracted to the prospect of receiving above average returns and that their proposal-screening process has the objective of distinguishing those proposals that will decline and fail from those that will ultimately succeed. This implies that the perceived financial success of the SME that is funded is the common thread in the investment appraisal process. This study focuses on holistic performance of the investee and not necessarily financial success only.

Therefore, investors' expectations regarding the venture's dimensions of performance are a factor that will possibly impact their decision making.

Financial Mail (2004: 64) advises the entrepreneur seeking finance: "Don't apply for finance without drawing up a good business plan that markets your company and targets the financier you intend approaching." Tannenbaum (2000) says that the antidote for corporate insolvency is a good business plan and sticking to it. Taylor (2001), in a study of the investment decision making process among venture capitalists, concludes that a good business plan is a major factor influencing the propensity of investors to allocate capital.

Many financiers have preferences in their investment transactions. The SAVCA 2005 Yearbook states some of these as: minimum and maximum investments, willingness to syndicate, industry preferences or industries excluded, stage of the investee enterprise, geographical preferences and percentage equity taken in the enterprise. Against the backdrop of these foregoing preferences, the study will focus on the financing of Qualifying Small Enterprises (QSEs) in the early growth stage of the business life cycle. It is also important to note that early-growth stage QSE entrepreneurs may possibly practise business planning as an ongoing activity, not just when financing is sought. This is different to entrepreneurs seeking seed capital, where a once off business planning exercise is done to attract finance. By focusing on financing of QSE's in the early growth stage, it will be possible to explore whether investors perceive ongoing planning as relevant, as well as determine the expectations of financiers regarding small business planning aspects when financing is sought.

Finally, the impact of government policy on the economy may force the investor to recalibrate his decision making criteria when considering the allocation of capital towards small businesses. In the South African context, this is particularly applicable with the unfolding of Government's Black Economic Empowerment strategy. The study will focus on how the investor responds to this challenge.

1.3 Purpose of the study

The purpose of this study is to explore investor expectations of investee business planning process and content, and the perceived investee future performance when deciding to allocate capital to early growth stage QSEs amidst South Africa's Black Economic Empowerment programme.

The relevance of the study lies in the context of economic growth via small businesses in South Africa. The choice of the research topic was informed by the general lack of entrepreneur equity to sustain the growth of small businesses. More specifically, the intent of the study is to identify, analyse and interpret those elements of small business planning with a view to revealing opportunities for success in securing funding from investors.

1.4 The research problem

The main research problem is to explore the expectations of financiers of QSEs in the early growth stage regarding business planning, and to gauge their perceptions on the QSE's future performance dimensions that will positively influence their propensity to allocate capital. What are investor expectations of business planning and performance in qualifying small enterprises?

The following sub-problems are associated with this research:

I. In order to positively influence their decision making in allocating capital, what are financiers' expectations of the key process steps in early-growth stage QSE business-planning?

II. In order to positively influence their propensity to allocate capital, what are financiers' expectations of the main content elements in early-growth stage QSE business plans?

III. What are financiers expecting of the future critical performance dimensions of an early-growth stage QSE when they decide to allocate capital?

IV. How does Government's BEE policy recalibrate the financiers' expectations regarding early-growth stage QSE business planning process and content and expected performance dimensions?

1.5 Delimitations and limitations

The effective sample size comprises those participants who respond to semi-structured interviews. The focus was on financiers of early growth stage QSE's to comprise the respondent base. The cross-section of the sample was not tested to verify if they are representative of investors in other small businesses at other stages in the business life cycle. Since the sample for the study is purposive, the researcher has elected respondents who have enough experience to contribute towards a solution to the research problem. No attempt is made to ensure that the sample is random and representative of the population.

The study is delimited to financiers that are full members of the South African Venture Capital and Private Equity Association (SAVCA) as published in the SAVCA 2005 Yearbook. This strengthens the fact that the effective sample size for this group comprises those participants who participated in the survey. The cross-section of the yearbook entries was not tested to verify if they are representative of all investors or financiers in South Africa. Similarly, this study did not test whether there is any variation between the expectations of venture capitalists and those of the general financing sector. The study includes qualifying small enterprises in the early growth stage and excludes other sized enterprises at other stages in the business life cycle. The reason for the choice of SAVCA members as the respondent base is explained in Section 4.3.

The study is delimited to responses of the respondent base. No tests were conducted to verify if the respondents' expectations are representative of the expectations of the population of entrepreneurs, academia and consultants in the fields of business planning, small firm performance and Black Economic Empowerment. Since this study is limited to financiers of early growth stage QSEs, no tests were conducted to verify whether the responses indicated by the respondents are informed by their experience. Therefore all responses are treated as truthful. However, respondents were selected based on their investment preferences as published in the SAVCA 2005 Yearbook so that reproducibility of respondent profiles is achieved among the sample elements.

This study is delimited to exploring the problem from the perspective of investors and financiers. Factors from an entrepreneur's perspective have not been examined at all. Similarly, the perspectives of consultants and academia were not considered.

The study identifies small business planning process, content and performance factors: no specific hypotheses about the interrelationships among the process steps, or among the content elements or among the performance dimensions are tested. However, the researcher attempts to identify, through the literature review, any causality or dependence between the process steps and performance dimensions, and similarly between the content elements and performance dimensions. The respondents' extent of understanding of business planning process and content, and small business performance have guided their responses regarding their expectations during investment appraisals.

1.6 Significance of the study

Within the context of economic growth in South Africa being promoted via SMEs, this study helps determine the average expectations of financiers of early growth stage QSE's regarding those aspects of business planning that positively influence their propensity to allocate capital. Early-growth stage QSE *entrepreneurs* seeking funding can use the information to present business plans to financiers that take into account those expectations and those performance areas which the financiers perceive as risk reducing. This would assist the entrepreneur in securing funding. Knowledge of the financier expectations of business planning would assist entrepreneurs in presenting the best possible business plan to obtain financing.

The transformation requirements of various sectors regarding conversion of existing businesses to BEE-accredited status may render *existing entrepreneurs* in need of funding to roll out their empowerment programmes. By focusing on the expectations of financiers regarding business planning process and content and what performance measures these financiers see as risk reducing, this study will benefit *the existing entrepreneur* in both his ongoing business planning and the once off business plan targeted at the financier to gain investor confidence for such investment.

The results of this research will be particularly useful to individual *financiers* to understand the collective general expectation of financiers of early growth stage QSE's regarding business planning process and content. If financiers, on average, make successful investments based on process and content of the investee's business planning, then an enhanced understanding of the financiers' investment criteria would improve understanding of what process and content lead to investment success generally. Financiers would gain from knowing which business planning aspects could be used to distinguish between possible successful and unsuccessful ventures

BEE entrepreneurs can benefit from this study by examining how financiers have recalibrated their decision making with the impact of government policy on their original expectations of business planning aspects. Given the fact that these financiers provide funding to early growth stage QSEs, BEE entrepreneurs may realise their shortcomings and differences in perceptions with regard to financier expectations. This is important to the BEE entrepreneur, as potential investment in a growing business is important to sustain growth and success of the firm. The BEE entrepreneur may gauge, from the results of this study, what is important to the financier that he has in mind and plan his business accordingly i.e. conduct those activities that the investor perceives are pertinent in influencing his propensity to allocate finance.

Consulting companies that draw up business plans for small business entrepreneurs could benefit from the results of this study. Given their knowledge of financier expectations of business planning and performance, the consultant can write up business plans that would address the financier and still keep the client entrepreneur content.

This study identifies factors that are distinctive to South African investors and entrepreneurs. This is considered important given the requirements of the transformation programmes prevalent in South Africa. Supported by little local research in the field of business planning and performance and investor appraisals of business plans, this suggests that knowledge of this field is nascent. The results of this research could combine with this little existing knowledge into an intelligible framework for future reference.

Finally, academia may find the results of this research valuable. Business planning among small enterprises has not enjoyed rigorous scrutiny by local academics. The output of this research could result in a base understanding of business planning factors influencing investor decision-making on small business and lay the foundation for future academic research.

1.7 Assumptions

The following are the underpinning assumptions of the research:

a) It is assumed that the perceived performance of the investee, at least from a financial perspective is paramount in the decision making of the financier to allocate capital. Therefore, any aspect of business planning that is hypothesised to be linked to performance, constituted a critical area for exploring the financier's perspectives on.

b) Although the different literatures present different measures of success of small firms as well as a large number of business planning process and content issues, a limited number of success dimensions and planning issues were chosen by the researcher for this study. It was assumed that the choice of performance dimensions and business planning activities would not influence the validity of this study. This assumption is reasonable to make since the choice of performance measures and planning activities would be influenced by the relative importance of each i.e. only the important ones were chosen for this study.

c) The researcher acknowledges that other numerous factors outweigh the influence that business planning necessarily has on the propensity of financiers to allocate capital (e.g. capability of the entrepreneurial team). However, for the purposes of this study, it is assumed that all other drivers of financing success are constant and that the only independent variables are perceived QSE performance and business planning process and content elements, with the dependent variables being the success in obtaining funding.

d) The effective sample is assumed representative of the entire population of financiers of QSE's in the early-growth stage.

e) The response of the participants in the survey regarding expectations of business plan elements and performance was assumed truthful. It is assumed that the participants had sufficient and expert knowledge to participate in the survey and, that normal perception and perspectives were provided.

f) The business planning aspects, activities and performance criteria identified and selected through the literature reviews are assumed representative of and applicable to QSE's in South Africa.

g) It is assumed that the results obtained at the end of this study are representative of the final expectations of financiers of QSE's on future performance of the QSE and the process and content of their business planning. It is assumed that if the process were to be repeated within an unchanged business environment, the research would generate similar results.

h) It is assumed that no overall prejudice was brought about by the number and/or geographical location of the sample of financiers participating in the survey since the responses were informed by general expectations of the respondents and not necessarily quantitative data. Similarly, it is assumed that no inherent bias was brought about by the profile of the respondent.

i) It is assumed that the interview duration of approximately 1 hour was sufficient to generate enough information without loss in validity and, that consistent result was yielded by in-depth semi-structured interviews and the ensuing content analysis of the responses.

1.8 Subsequent chapters of the research report

A literature review is provided in Chapter 2 to position this study relative to previous research and to contextualise its scope. Initially the chapter deals with the history and evolution of the South African economy, BEE and the role of small businesses and what a QSE is. Thereafter, financing and investment activity are briefly described. The chapter also reviews key performance dimensions of a small business and focuses on business planning activities, viz. what business planning is, process steps in planning and strategic content elements of the business plan. A summary shows how each issue dealt with segues into the next.

In Chapter 3, the research questions flow from the literature review and details questions against which the research is conducted. The research methodology and the limitation of the research are identified in Chapter 4. Chapter 5 deals with the research findings, their evaluation and discussion. Finally in Chapter 6, plausible solutions to the research questions are concluded together with recommendations and suggestions for further research.

2 LITERATURE REVIEW

In order to clearly address the research problem, this chapter outlines the literature used and is ordered in such a way so that it eventually segues into a coherent set of research questions. The order of topics presented in this literature review helps build a solid case for exploring investor expectations of both business planning aspects and investee venture performance among early growth stage QSEs so that these financiers are positively influenced to allocate funding to the QSE entrepreneur.

The literature review commences with a description of the economic landscape in South Africa and covers the history of events leading to BEE, the legislation passed and measurement mechanisms for its reporting. It also describes what small businesses are and provides the prerequisite knowledge to understand what a QSE is, the definition of which ends this section.

In order to fully grasp the purpose of the study, the next section describes who a financier is and what the key reason for investment is. It is shown that small businesses are expected to perform if they are to attract any form of funding from external investors, an underlying thread in this research. Key performance dimensions for a small business are unearthed in the next section.

A broad overview of business planning is then described. A literature survey of business planning process and its relationship to small business performance is then presented. Finally, a review of the literature on business plan content and its relationship to small business performance is presented. In these last two sections, key process steps and business plan content elements are uncovered.

The chapter concludes with a summary of the argument thus far. Tentative solutions are found for this study and culminate in the research questions in the next chapter.

2.1 The economic landscape in South Africa

2.1.1 The effect of apartheid on the South African economy

When the National Party came to power under Malan in 1948, it conceived and implemented the policy of apartheid, which was characterised by the African, Coloured and Indian races being treated as subservient to the White race. It included restrictions on categories of occupations in which they could participate, the places they could live, the standard of education, and so on. The creation of 'independent states' for Africans, as separate territories yet part of South Africa, deepened racial segregation (Rungan, Cawood & Minnit, 2005) and exacerbated the deprivation of viable business opportunities because of poor living conditions, and a lack of business infrastructure and environment. BEE Com (2001) states that further underdevelopment of black South Africans took the form of a progressive destruction of productive assets, deliberate denial of access to skills and jobs and the undermining of self-employment and entrepreneurship. This resulted in a structural inhibition of Blacks from participation in a legislatively race-based economy. The fabric of black small enterprises was destroyed and large capital losses were incurred when millions of Blacks were uprooted from their places of residence, enforced by the Group Areas Act. Property ownership rights of Blacks were drastically curtailed, making it impossible for them to acquire any assets that could serve as collateral for loan financing in any form hence the long-run process of capital accrual and growth was denied to Black people.

BEE Com (2001) says that a dual demand and supply theory characterised the economic landscape of South Africa. On the demand side, South Africa experienced a saturation of the White consumer market. This limited sales and the ability of the manufacturing sector to benefit from economies of scale. Instead of expanding the Black consumer market, the state called for an increase in exports. This continued marginalisation of the Black majority acted as a depressant on aggregate demand which in turn restricted prospects for economic expansion. "It only allowed for a form of growth that reproduced the narrow economic base that continued to marginalise the majority" (BEE Com, 2001: 3).

On the supply side of the economy, South Africa was unable to adapt to rising labour costs resulting from skill shortages and the rise of semi-skilled worker organisations as well as rising capital costs due to continued dependence on imported equipment and machinery. This, coupled with international economic stirs and domestic political instability, resulted in low investor confidence because these factors reduced the willingness of firms to invest in order to adapt their operations in South Africa.

BEE Com (2001: 3) states that apartheid lead to significant structural distortions in the economy: "From the mid-1970's the South African economy entered a long term period of secular decline with the average annual growth in real GDP per capita falling to zero between 1970 and 1979 and -3.4% between 1980 and 1989."

When South Africa achieved democracy in 1994, its economic landscape was characterised by high levels of unemployment, highly unequal distribution of income and low levels of growth and investment (BEE Com, 2001).

2.1.2 Addressing the challenge of disempowerment

The following paragraphs in this section have been adapted from the Broad Based Black Economic Empowerment strategy document, viz. South Africa's Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment (undated), [*http://www.thedti.gov.za/bee/complete.pdf*], (Accessed 23rd April 2006).

On achieving democracy, the government laid foundations for economic development and growth from the low-growth, deep structural crisis base. BEE Com (2001) states that that the government has been instrumental in economic transformation:

- It passed the new Constitution which entrenched values of equality and freedom and provided for specific measures to redress historical imbalances. In so doing, it stabilised the political environment.
- It adopted the Reconstruction and Development Programme (RDP) as a plan against which all South Africans would be mobilized to finally eradicate apartheid and reconstruct the economy in a non-racial, non-sexist and democratic way
- It stabilised the macroeconomic environment through the Growth, Employment and Redistribution strategy (GEAR). This provided the platform for accelerating the growth rate.
- It introduced various industrial policies which forced producers to be more competitive.
- It introduced strategies to deregulate certain sectors of the economy which attracted local and foreign investment and increased levels of choice for consumers.
- It advanced the youth as a national priority.
- It addressed human resources by restructuring the education system and implementing a skills development strategy.

In 1995, a national strategy for the development and promotion of small business in South Africa was tabled in Parliament, where the creation or new black-owned and black-controlled enterprises was seen as a key component. The National Small Business Act was then introduced in 1996 and provided an enabling environment for the establishment of small, medium and micro enterprises. Several institutions were established to provide financial and other support to small business entrepreneurs.

In 1997, government issued a Green Paper on public sector procurement reform and introduced mechanisms to give effect to a preferential procurement policy. This was later legislated with the enactment of the Preferential Procurement Act in 2000.

The Employment Equity Act was introduced in 1998. It required all enterprises employing more than fifty employees to take affirmative action to bring about a representative spread of designated groups in all occupations and organisational levels within defined time periods.

In 1998, government created the National Empowerment Fund through the enactment of the NEF Act of 1998, a trust that would hold equity stakes in state-owned and other private enterprises on behalf of historically disadvantaged South Africans (HDSAs) in order to provide entrepreneurial opportunities and encourage savings, investment and economic participation of HDSAs. It also served to promote and support business ventures that were pioneered and run by HDSAs.

In 2001, the Black Economic Empowerment Commission submitted an Integrated National BEE Strategy in its BEE Com report to address the underdevelopment and continued marginalisation of the black majority from the main stream economy.

2.1.3 Black economic empowerment

Government Gazette (2004) published the South African Government's legislation on BEE viz. The Broad Based Black Economic Empowerment Act No. 53 of 2003 in January 2004.

BEE Com (2001: 2) submitted the following as the definition of BEE:
'It is an integrated and coherent socio-economic process. It is located within the context of the country's national transformation programme, namely the RDP. It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. It seeks to ensure broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity.'

The Broad Based Black Economic Empowerment Bill was passed to establish a legislative framework for promoting BEE, to empower the Minister of Trade and Industry to issue codes of good practice and publish transformation charters and to establish a BEE Advisory Council. The Bill also provided for the submission of a BEE Strategy by the Minister of Trade and Industry.

The strategy submitted by the Minister of Trade and Industry, (South Africa's Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment (undated), [*http://www.thedti.gov.za/bee/complete.pdf*], (Accessed 23rd April 2006)), adds to the definition of BEE that the BEE process includes elements of human resource development, employment equity, enterprise development, preferential procurement as well as investment, ownership and control of enterprises and economic assets.

The 4 key principles underpinning the strategy are that BEE is:

- Broad Based
- An inclusive process
- Associated with good governance
- Part of South Africa's growth strategy

The strategy also provides for government to utilise a number of policy instruments to achieve its objectives and include legislation and regulation, preferential procurement, institutional support, financial and other incentive schemes and will seek partnerships with the private sector to accelerate the BEE process.

2.1.4 The BEE scorecard and the codes of good practice

The 'Regulation' policy instrument allows, in the strategy document, for the use of a balanced scorecard to measure progress made in achieving BEE by various enterprises and sectors. In a nutshell, three core elements are measured:

- Direct empowerment - ownership and control of enterprises and assets
- Human resource development and employment equity
- Indirect empowerment - preferential procurement and enterprise development

A residual element which allows enterprises and sectors to tailor the scorecard to their circumstances (e.g. beneficiation, supplier infrastructural support, investment in the social wage of employees)

In November 2005 the first phase of the Codes of Good Practice was issued and focused on the direct empowerment components of the BEE Balanced Scorecard. During December 2005, phase 2 of the draft Codes of Good Practice were issued by the Minister of Trade and Industry for public comment, with the objective of providing clarity and guidance on the interpretation and definition of Broad Based BEE

A portion of the generic BEE Scorecard is presented below and is applicable to enterprises that wish to be accredited as BEE enterprises. It should be noted that the scorecard enables measurement of progress of an enterprise in achieving BEE.

Element	Weighting
Ownership	20
Management Control	10
Employment Equity	10
Skills Development	20
Preferential Procurement	20
Enterprise Development	10
Residual Element	10

Table 1: Generic BEE Scorecard Weightings (Source: http://www.thedti.gov.za/bee/complete.pdf)

The second phase of the Codes of Good Practice has amended the generic scorecard above for qualifying small enterprises (QSEs), but it is prudent to first examine what a small business is.

2.1.5 SMMEs and the QSE scorecard for BEE

A small business is generally referred to as a small, medium or micro enterprise (SMME). Micro enterprises are not part of the formal economy. The National Small Business Act No. 102 (Government Gazette, 1996) of 1996 offers the following definition of a small business:

A "small business" means a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column I of the Schedule and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class as mentioned in column 2 of the Schedule. The Schedule referred to is the following:

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees *Less than:*	Total annual turnover *Less than:*	Total gross asset value (fixed property excluded) *Less than:*
Agriculture	Medium	100	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees *Less than:*	Total annual turnover *Less than:*	Total gross asset value (fixed property excluded) *Less than:*
Electricity, Gas and Water	Medium Small Very small Micro	200 50 20 5	R40.00 m R10.00 m R 4.00 m R 0.15 m	R15.00 m R 3.75 m R 1.50 m R 0.10 m
Construction	Medium Small Very small Micro	200 50 20 5	R20.00 m R 5.00 m R 2.00 m R 0.15 m	R 4.00 m R 1.00 m R 0.40 m R 0.10 m
Retail and Motor Trade and Repair Services	Medium Small Very small Micro	100 50 10 5	R30.00 m R15.00 m R 3.00 m R 0.15 m	R 5.00 m R 2.50 m R 0.50 m R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium Small Very small Micro	100 50 10 5	R50.00 m R25.00 m R 5.00 m R 0.15 m	R 8.00 m R 4.00 m R 0.50 m R 0.10 m
Catering, Accommodation and other Trade	Medium Small Very small Micro	100 50 10 5	R10.00 m R 5.00 m R 1.00 m R 0.15 m	R 2.00 m R 1.00 m R 0.20 m R 0.10 m
Transport, Storage and Communications	Medium Small Very small Micro	100 50 10 5	R20.00 m R10.00 m R 2.00 m R 0.15 m	R 5.00 m R 2.50 m R 0.50 m R 0.10 m
Finance and Business Services	Medium Small Very small Micro	100 50 10 5	R20.00 m R10.00 m R 2.00 m R 0.15 m	R 4.00 m R 2.00 m R 0.40 m R 0.10 m
Community, Social and Personal Services	Medium Small Very small Micro	100 50 10 5	R10.00 m R 5.00 m R 1.00 m R 0.15 m	R 5.00 m R 2.50 m R 0.50 m R 0.10 m

Table 2: 'The Schedule' used in conjunction with the definition of a small business

(Source: http://www.polity.org.za/html/govdocs/legislation/1996/act96-102.html)

Medium enterprises need to comply with the Generic Scorecard and micro enterprises are exempted from compliance, with the exception of those below. The Codes of Good Practice refer to the ‘Small’ and ‘Very Small’ enterprise sizes in the above Schedule as those that need to comply with the Qualifying Small Enterprise Scorecard for BEE, with some exceptions:

- A small size in the Wholesale, Trade, Commercial Agents and Allied Services sector needs to comply with the Generic Scorecard
- A medium size in the Catering, Accommodation and other Trade sector needs to comply with the QSE Scorecard
- A medium size in the Community, Social and Personal Services sector needs to comply with the QSE Scorecard

The QSE Scorecard is different in its requirements than the Generic Scorecard for BEE compliance in the following ways:

- All the elements of the QSE Scorecard have a weighting of 20.
- QSE’s need only pick 5 areas of the QSE Scorecard in which to be rated.

In addition, if Ownership is selected for rating, bonus points are awarded on condition that the compliance target is met. However, if there are no employees in the enterprise, Employment Equity or Skills Development may not be selected.

For the purposes of this research, the following aggregate values of a small or very small business are submitted and define a qualifying small enterprise:

- Between 5 and 50 employees
- Annual turnover between R 150,000 and R 10 million
- Gross asset value excluding fixed property between R 100,000 and R 5 million.

2.2 The financier and expectations of small business performance

A financier is one that makes an investment or allocates capital to a project (investee), often with the objective of being able to generate returns on that investment. It is obvious then that the key concerns of the financier will be to limit the amount of risk that he takes in making his investment. If the funded project is successful in future, then that financier generates returns from the investment, based on the performance of the investee venture.

Proimos & Wright (2005) said that financiers are attracted to the prospect of receiving above average returns and that they screen proposals with the objective of distinguishing those proposals that will fail from those that will succeed. "The challenge is to earn a consistently superior return on investments in inherently risky business ventures", (Zider, 1998: 133). The reason, therefore, for investment is to generate healthy returns. So, it is a precondition that small businesses are expected to perform financially if financing is to be attracted.

However, with Government's objectives of growing the economy through Black Economic Empowerment, many other performance expectations may come into play and these may alter the financiers' perceptions if their objectives are so aligned. These may be job creation and alleviation of poverty. This then leads on to the question: "What are the key expected performance dimensions of a small business?"

Various studies have detailed the characteristics of performance measures (Globerson, 1985; Maskell, 1989; Dixon, Nanni & Vollman, 1990; Lynch & Cross, 1991 and Neely, Mills, Gregory, Richards, Platts & Bourne, 1996). Neely, Richards, Mills, Platts & Bourne (1997) identified a list of 22 performance-measure characteristics from which, Hudson, Smart & Bourne (2001) removed duplication. Their categorisation revealed 6 performance dimensions that could be seen to cover all business areas: financial performance, operating performance through the dimensions of time, quality and flexibility, external perception through the eyes of customers and cultural aspects of work life through the human resource dimension.

The following table categorises some of the characteristics of performance:

Quality	Time	Flexibility	Finance	Customer Satisfaction	Human Resources
Product Performance	Lead Time	Manufacturing Effectiveness	Cash Flow	Market Share	Employee Relationships
Delivery Reliability	Delivery Reliability	Resource Utilisation	Market Share	Service	Employee Involvement
Waste Management	Process throughput time	Volume Flexibility	Overhead Cost Reduction	Image	Workforce
Dependability	Process Time	New Product Introduction	Inventory Performance	Integration with Customers	Employee Skills
Innovation	Productivity	Computer Systems	Cost Control	Competitiveness	Learning
	Cycle Time	Future Growth	Sales	Innovation	Labour Efficiency
	Delivery Speed	Product Innovation	Profitability	Delivery Reliability	Quality of Work Life
	Labour Efficiency		Efficiency		Resource Utilisation
	Resource Utilisation		Product Cost Reduction		Productivity

Table 3: The grouping of performance characteristics into six general dimensions (Source: Hudson et al, 2001)

Therefore, in gauging investor expectations of overall investee venture performance, a holistic consideration of all these performance dimensions is encouraged. While financial performance is expected to be the priority for the investor, it would be important to see whether other performance dimensions are significant in decision making to allocate finance to a small business entrepreneur, particularly in the South African context. Using these performance dimensions as a guideline in terms of how financier expectations have been recalibrated will fill a void in the literature.

2.3 Small business planning

Shrader, Mulford & Blackburn (1989) conceive of a formal strategic plan as a written, long-range plan that includes both a mission statement as well as organisational objectives. It includes strategies showing how objectives will be accomplished and is considered to provide the substance from which overall company performance can be controlled and measured. Strategic plans cover longer time horizons (typically one to five year time frames) than operational plans, which are defined as the setting of short-term objectives for specific functional areas (typical periods of less than one year). Operational plans might include written inventory and sales forecasts, budgets for finance, human resources and advertising for monthly or quarterly time periods (Bracker & Pearson, 1986).

Academic interest in the effect of formal strategic planning within the small business environment has been motivated by evidence from larger businesses that formal strategic planning is related to successful performance (Ansoff, 1965).

Gibb & Scott (1985) recognised that formal strategic planning lacks within small firms, however, the importance of strategic awareness and personal commitment from the entrepreneur is seen as being the potential to counter-weigh this shortfall. The majority of small firms do not use any kind of formal strategic plans but the use of planning and the extensiveness with which planning is done tend to increase with firm size (Robinson & Pearce, 1984; Risseeuw & Masurel, 1994; Glen & Weerawardena, 1996; Berman, Gordon & Sussman, 1997 and Gibson & Cassar, 2002).

Contrary to the nearly universal agreement that planning is essential for success, Mintzberg (1994) cautions that planning can be overdone, incorrectly done and ineffective. Baechler's (1996) study suggests that planning may not be necessary since some small firms have survived while avoiding business planning altogether.

Honig' & Karlsson (2004) found that institutional variables, such as coercion and mimetic forces are predictors influencing the propensity of new organisations to do formal strategic planning. Their findings showed no evidence to support positive outcomes, in terms of profitability, for nascent organisations that formally planned.

A distinction should be noted between business planning and the business plan. Planning may be considered to be an ongoing activity and is characterised by a process whereas the plan may be considered to be the final outcome of the planning process. The final business plan will be the content that is submitted to the investor in an application to attract finance. In this case, the process in arriving at the business plan could also be seen as a once-off activity for the purposes of attracting funding and not an ongoing activity as previously stated.

Mazzarol (2000) states that formal business plans are viewed by most banks and enterprise development agencies as vital if a small business entrepreneur seeks external funding. Taylor (2001) also said that the business plan submitted when attracting finance is an important factor that is given consideration during investment appraisals. It should be coherent and well articulated. *Financial Mail* (2004: 64) advises the entrepreneur seeking finance: "Don't apply for finance without drawing up a good business plan that markets your company and targets the financier you intend approaching."

Given financier expectations of superior performance from the investee in his decision to allocate funding, the study being undertaken concentrates on the QSE to see what business planning process and content are necessary, particularly within the context of Black Economic Empowerment, to positively influence the investor to allocate capital. To what degree of sophistication is business planning needed, as perceived by the investor? The approach adopted is to uncover process steps and content elements that have been reported to drive small business performance. Based on this correlation, it is expected that these steps and content elements uncovered, will be important to the investor and forms the basis of the research questions in the next chapter.

2.4 Prior research on small business planning and performance

Interest in the relationship between small business planning and organisational performance began in the late 1960s (Rue & Ibrahim, 1998). Research has been classified into two streams:

- planning formality improves performance (Sexton & Van Auken, 1985 and Perry, 2001) and
- Performance improves with sophistication in strategic content (Hillidge, 1990; Branch, 1991; Brokaw, 1992 and Knight, 1993).

These two streams of research in small business-planning and its relationship to small business performance can immediately been seen to cover the areas of process and content. Therefore, in order to inform a coherent set of research questions, a thorough survey of the literature is presented on planning formality and strategic content as two separate discussion points.

2.4.1 <u>Formality</u>

Empirical evidence that supports the case for formal planning having a benefit to small enterprises has been inconsistent (Pearce, Freeman & Robinson, 1987).

Some studies have generally concluded that formal planners outperformed non-planners (Thune & House, 1970; Herold, 1972 and Perry, 2001), "the premise being that formal plans are superior to informal plans because the process of writing the plan forces ideas and objectives to be thought out" (Shrader *et al*, 1989: 46). Herter (1995) said that the process of developing the plan forces the entrepreneur to think about the harsh reality of the business world, rather than the more common dream world.

Jones (1982) found that formal planning increases the success rate of small businesses. Sexton & Van Auken (1985) said that failure rates among firms with high levels of formalised planning were significantly lower than among firms that had little or no formal planning. Castrogiovanni (1996) said that the high failure rate among SMEs, particularly start-ups has been attributed to this lack of formal business planning. Upton, Teal & Felan (2001) found that the majority of fast growth family firms prepare formal written plans. From a study of 161 small businesses, Berman *et al* (1997) said that enhanced financial performance was associated with formal planning.

Robinson, Pearce, Vozikis & Mescon (1984), in a study of 51 small firms concluded that formal planning benefited business performance irrespective of the stage of growth. If owners of start-ups formally planned, the start-ups tended to be more profitable. Even in growth-stage firms, higher sales growth could be expected if formal planning was done.

Romano & Ratnatunga (1994) examined the relationship between formal planning and control processes and the different growth stages among manufacturing SMEs. They found that formal planning and control are important elements of management of high growth firms operating at the 'mature' growth stages. However, lower growth firms operating at the 'sustained' and 'steady' growth situations are unconcerned with formal systems.

French, Kelly & Harrison (2004) classified respondents from small professional service firms as non-planners, informal planners, formal planners and sophisticated planners. They found that a significant relationship between net profit and informal planning emerges.

Wijewardena, de Zoysa, Fonseka & Perera (2004) demonstrated that formal planning and control sophistication is an important contributor to the sales performance in manufacturing SMEs. Drawing on a sample of 168 manufacturing SMEs in Sri Lanka, their study suggested that the greater the sophistication in both formal planning and control processes, the higher the sales growth.

On the contrary, in a survey of 328 *Fortune 500* companies, Kudla (1980), found no significant differences in returns to shareholders achieved by planning and non-planning firms. He attributed this to a lack of control over extraneous, independent variables, such as general market and economic conditions and government factors.

Robinson & Pearce (1984) found no significant relationship between performance and planning within the SME, but growth rates were significantly better among formal planners.

Unni (1984) said that it is more common to find small business owners without a formal plan than with one. *Managing Office Technology* (1994) revealed the results of a study of 500 small businesses in the U.S. and said that fewer than 42 percent possessed a formal business plan. Osbourne (1995) maintains that only about one-third of start-up entrepreneurs create comprehensive marketing and financial plans, and that those who do so increase the probability of venture success. Perry (2001: 201) confirmed this finding by concluding that "very little planning goes on in U.S. small businesses; however non-failed firms do more [formal] planning than similar failed firms did prior to failure."

A thorough analysis of the above studies indicates that business planning formality actually refers to the process of planning. Each key step in the process will be selected as important on its ability to drive performance of the small business. These key steps will be uncovered later in the literature review.

2.4.2 Strategic content

Bracker & Pearson (1986) identified different levels of performance associated with different levels of planning. Bracker, Keats & Pearson (1988) found that small electronics firms performed better due to their high strategic planning sophistication rather than those that were unstructured planners. Robinson & Pearce (1988) suggested that firm performances improve with increasing sophistication in planning.

Drawing on a sample of 161 small businesses, Berman *et al* (1997) classified planning levels into 4 categories, each increasing in planning sophistication, namely, crisis management, budget planning, long-range planning and strategic planning. They concluded that sophisticated planning among small businesses was low.

Other numerous studies have also suggested a positive relationship between strategic planning and performance (Karger & Malik, 1975; Wood & La Forge, 1979; Sapp & Seiler, 1981 and Perry, 2001). The work of Schwenk & Shrader (1993) supports Bracker & Pearson's (1986) findings by concluding that sophistication in business planning affects the level of performance of the small business. Moreover, they identified, through meta-analysis of 14 research studies, a presence of moderating variables on the effect of strategic planning on performance in these small businesses. Their overall conclusion was that, in general, strategic planning is a beneficial activity for small firms.

A SME may follow any of 3 generic strategies as suggested by Porter (1980): (1) Overall cost leadership, (2) Differentiation strategy and (3) Time-based strategy. Upton *et al* (2001), from a survey of 65 fast growth family firms, found that the majority supported a high-quality strategy. Even when bringing new products to the market, they adopt a first mover strategy. It is illustrated here that strategy adoption among SMEs is seen to be beneficial to growth.

Still others have reported positive relationships among various measures of strategy content and small firm performance (Miller & TouLouse, 1986; Segev, 1987 and Bracker *et al*, 1988).

French, *et al* (2004) used exploratory factor analysis to identify 5 major constructs of strategic planning among small professional service firms. These were vision, mission, latent abilities, competitor orientation and market orientation, each seen as an increasing level of strategic activity. Their analysis of the correlation between these factors and small firm financial performance indicated no significant relationships.

Other studies have been equivocal on the relationship between strategic business planning and performance (Kargar, 1996), the argument being that strategic planning is more applicable to larger businesses and of little relative benefit to the financial performance of small business (Robinson & Pearce, 1984).

Grinyer & Norburn (1975), in a study of 21 United Kingdom companies, could not find a positive relationship between strategic planning and financial performance. Similarly, other studies have concluded that there is little or no significant relationship between strategic planning and the performance of small firms. Factors such as environmental uncertainty, stage of firm development and management skill play a role in performance of the SME (Kallman & Shapiro, 1978; Robinson, Logan & Salem, 1986; Cragg & King, 1988; Watts & Ormsby, 1990 and Matthews & Scott, 1995).

2.5 Business planning process and content

Mazzarol (2000) said that formal business planning within SMEs is frequently associated with a process whereby the entrepreneurs, on examining their business environment, attempt to establish a framework and direction for the company. He postulates several elements that encompass this process as follows:

(a) Preparation of a *mission statement*

(b) Examination of the *current situation* facing the business

(c) *Forecasts for future growth* of the business

(d) Establishment of *objectives*

(e) Devising of *strategies* to meet the objectives

(f) *Documentation* of the plan i.e. formalising the plan

Linder & Vick (1984) said that apart from documenting a business plan, a *monitoring-evaluation process* should be established. Upton *et al* (2001) found that fast growth family firms tie planning to actual performance and provide *feedback* to employees regarding the variance. Wijewardena *et al* (2004) found a positive correlation between *planning and control* sophistication and improved sales growth.

Olson & Bokor (1995) concluded from a survey of 442 small start-ups that formal business planning enhanced performance within the context of the *entrepreneur's prior management experience or work history*. Rice (1983) said that an *entrepreneur's own personal objectives* and the ability to learn from any past successes or failures are important in the business planning process.

Ackelsberg & Arlow (1985) examined 135 small firms in the U.S. in different industries and concluded a strong relationship between planning and enhanced sales and profitability but also noted the *influence of economic environmental factors* and the importance of *analysis* in the planning process. Orphen (1985) observed the planning activities of 58 senior managers from small enterprises and concluded that a greater level of planning, from the perspective of *depth of analysis* and *longer-term forecasting*, was prevalent among higher performing firms.

Perry (2001) ordered the following formal planning activities, which presumed an increasing intensity and sophistication of planning:

(a) Sales forecast

(b) Staffing forecast

(c) Cash flow forecast at least 12 months ahead

(d) Pro forma capital expenditure forecast

(e) Analysis of competition and identification of strategies and measurable goals which extended three or more years into the future.

French *et al* (2004) used exploratory factor analysis among small professional service firms and identified the following 5 constructs of strategic planning:

(a) Vision

(b) Mission

(c) Latent abilities of the entrepreneur

(d) Competitor Orientation

(e) Market Orientation

All the business planning activities surveyed in the literature review can be classified into two streams: (1) those that deal with *planning formality* or *process* and (2) those that deal with *planning strategy* or *content*. It should be noted however that the content-type elements actually are a subset of the process steps i.e. strategic planning content forms an integral part of the hierarchy of process sophistication.

2.5.1 Process steps

The following hierarchical order of process and related sophistication pertaining to ongoing business planning can be deduced from the literature review:

(a) **Vision and Mission Statement** (Shrader *et al*, 1989; Mazzarol, 2000 and French *et al*, 2004)

(b) In-depth **analysis of current situation** and trends including economic environment of business, government factors and market conditions (Kudla, 1980; Ackelsberg & Arlow, 1985; Orphen, 1985; Mazzarol, 2000 and Perry, 2001)

(c) **Forecasting of future trends and business growth** including economic environment of business, government factors and market conditions (Kudla, 1980; Ackelsberg & Arlow, 1985; Mazzarol, 2000; Perry, 2001 and French *et al*, 2004)

(d) Establishment of **objectives**, including the entrepreneur's personal objectives (Rice, 1983; Olson & Bokor, 1985; Mazzarol, 2000; Perry, 2001 and French *et al*, 2004)

(e) Devising of **strategies** to meet the objectives (Mazzarol, 2000; Perry, 2001 and French *et al*, 2004)

(f) **Documentation** of the business plan (Shrader *et al*, 1989; Mazzarol, 2000; Perry, 2001 and French *et al*, 2004)

(g) **Monitoring and Evaluation** of actual performance relative to performance provided for in the business plan (Linder & Vick, 1984)

(h) **Feedback** to employees regarding variance (Upton *et al*, 2001)

(i) **Control** such as the ability to take remedial steps for variances in performance from the business plan (Wijewardena *et al*, 2004)

As stated earlier, (a) to (e) forms the process steps within each functional area of the business in strategic planning (French *et al*, 2004), hence true process in planning can be simplified, for the purposes of this research, as follows:

(a) Strategic plan at least thought through (vision, mission, analysis, forecasting, objectives and strategies)

(b) Documentation of the plan

(c) Monitoring and Evaluation of variances in actual performance and planned performance

(d) Feedback and Control

French *et al* (2004) categorises planners into 4 broad areas based on the extent to which the above process steps are implemented. These same areas are used in this research and the following definitions are submitted for the 4 categories of planners:

Strategic Planning Category	Definition
Non Planners	Do not do any form of business planning
Informal Planners	Think through a business plan, such as vision, mission, objectives and strategies but do not write it down
Formal Planners	Think through a business plan such as the vision, mission, objectives and strategies and also document the plan, but lack one or more elements defining a sophisticated planner (see definition below)
Sophisticated Planners	Have a fully documented strategic plan that is used to drive operations by the derivation of operational plans from it. They have a method of managing from the business plan i.e. they monitor and evaluate the business performance, provide feedback to employees and take remedial steps for deviations.

Table 4: Definitions of Formality Categories in SME Business Planning (Source: French et al, 2004)

2.5.2 Strategic content

From the foregoing discussion, the following business planning activities relate to strategic content:

(a) Preparation of **financial statements**, inclusive of a sales forecast, cash flow forecast and capital expenditure forecast (Perry, 2001)

(b) Preparation of a **staffing forecast** (Perry, 2001)

(c) Preparation of a **competitor orientation strategy** (Perry, 2001 and French *et al*, 2004)

(d) Preparation of a **market orientation strategy** (Perry, 2001 and French *et al*, 2004)

(e) Preparation of a **customer orientation strategy** (French *et al,* 2004)

(f) Preparation of an **environment-of-business strategy**, which includes government factors, stage of firm development and management skill (Kallman & Shapiro, 1978; Ackelsberg & Arlow, 1985; Robinson, Logan & Salem, 1986; Watts & Ormsby, 1990 and Matthews & Scott, 1995)

(g) Integration of **latent abilities and personal goals** into the overall business plan (Rice, 1983; Olson & Bokor, 1995 and French *et al*, 2004)

French *et al* (2004) says that customer orientation strategies could be covered among the other constructs of strategic planning as posited above.

For the purposes of this research, strategic planning sophistication will be viewed as increasing as more of these activities are done during business planning by the entrepreneur.

Within the context of Black Economic Empowerment in South Africa, it is important to explore in detail how relevant the environment-of-business strategy is.

2.6 Summary

An overview of Black Economic Empowerment in South Africa was presented, together with its measurement systems on progress in achieving BEE viz. the BEE Scorecard and the Codes of Good Practice. A definition of a small business was presented, together with that of a qualifying small enterprise. The compliance requirement of QSE's was different to that of large and medium-sized businesses in that they would follow the QSE Scorecard rather than the Generic Scorecard.

A financier was described as one who allocates capital to a project and expects superior performance of the investee so that he makes superior returns on his investment.

6 general dimensions of performance have been presented through the literature reviews: quality, time, flexibility, finance, customer satisfaction and human resources.

It was shown that the main aspects of SME business planning is the formality adopted and the level of strategic sophistication involved in producing the business plan. These are actually process and content issues respectively.

Formality in planning is characterised by thinking through the issues pertaining to the business, documenting the outcomes of the thought process, monitoring and evaluating the small business's performance and controlling the performance of the business with relevant feedback to its stakeholders. SMEs may be categorised as non-planners, informal planners, formal planners or sophisticated planners. The level of strategy adopted can be gauged from the subset of formal business planning activities conducted during the planning process, viz. analysis, forecasting and devising strategies to meet planned objectives.

7 strategic business planning activities relating to strategy content are presented: forecast financial statements, staffing forecast, competitor orientation strategy, market orientation strategy, customer orientation strategy, environment-of-business strategy and latent abilities of the SME entrepreneur.

The study attempted to fill voids in the literature in the following ways:

- It adopted a holistic approach to performance unlike the literature which focuses on financial performance only,
- It was conducted within a transforming economy context and explores how transformation may force the investor to recalibrate his expectations of the process and content issues in QSE business planning.

3 RESEARCH QUESTIONS

The following research questions flow from the literature review and form the basis against which the study was conducted. They are questions about the main business planning process and content issues and the future performance dimensions involved in early growth stage QSE business planning. A separate question regarding the impact of Black Economic Empowerment was also posited.

3.1 Research Question 1

What are investors' expectations of the key process issues in ongoing business planning among early growth stage QSEs that significantly influence their decision to allocate capital?

For example:

- *SME performance improves with greater levels of formality in business planning* (Ansoff, 1965; Thune & House, 1970; Herold, 1972; Jones, 1982; Robinson & Pearce, 1984; Robinson *et al*, 1984; Sexton & Van Auken, 1985; Shrader *et* al, 1989; Romano & Ratnatunga, 1994; Herter, 1995; Osbourne, 1995; Castrogiovanni, 1996; Berman *et* al, 1997; Mazzarol, 2000; Perry, 2001; Upton *et al*, 2001 and French *et al*, 2004).
- *The level of formal planning in small businesses is low* (Robinson & Pearce, 1984; Unni, 1984; Gibb & Scott, 1985; *Managing Office Technology*, 1994; Risseeuw & Masurel, 1994; Osbourne, 1995; Glen & Weerawardena, 1996; Berman *et al*, 1997; Perry, 2001 and Gibson & Cassar, 2002).
- *Formality in business planning is not necessary* (Kudla, 1980; Mintzberg, 1994; Robinson & Pearce, 1984; Baechler, 1996 and Honig' & Karlsson, 2004).
- *The key steps in the small business planning process are:*

- *Thinking through the plan* (Shrader *et al*, 1989; Mazzarol, 2000 and French *et al*, 2004).
- *Documentation of the plan* (Shrader *et al*, 1989; Mazzarol, 2000; Perry, 2001 and French *et al,* 2004).
- *Monitoring and Evaluation of the small business relative to the business plan* (Linder & Vick, 1984).
- *Feedback and Control* (Upton *et al,* 2001 and Wijewardena *et al*, 2004).

3.2 Research Question 2

What are investors' expectations of the key content issues in a business plan presented by early growth stage QSEs that significantly influence their decision to allocate capital?

For example:

- o *Small business performance improves with higher levels of sophistication in business planning strategy* (Karger & Malik, 1975; Wood & La Forge, 1979; Sapp & Seiler, 1981; Bracker & Pearson, 1986; Miller & TouLouse, 1986; Segev, 1987; Bracker *et al*, 1988; Robinson & Pearce, 1988; Hillidge, 1990; Branch, 1991; Brokaw, 1992; Knight, 1993; Schwenk & Shrader, 1993; Perry, 2001; Upton *et al*, 2001 and Wijewardena *et al*, 2004).
- o *The level of sophistication in SME business planning strategy is low* (Berman *et al*, 1997).
- o *Sophistication in strategic planning is not necessary* (Grinyer & Norburn, 1975; Kallman & Shapiro, 1978; Robinson & Pearce, 1984; Robinson *et* al, 1986; Cragg & King, 1988; Watts & Ormsby, 1990; Matthews & Scott, 1995; Kargar, 1996 and French *et al*, 2004).

- *The key elements relating to sophistication in strategy in SME Business Planning are preparation of:*
  - *Financial statements* (Perry, 2001).
  - *Staffing Forecasts* (Perry, 2001).
  - *Competitor Orientation Strategies:* (Perry, 2001 and French *et al*, 2004).
  - *Market Orientation Strategies* (Perry, 2001 and French *et al,* 2004).
  - *Customer Orientation Strategies* (French *et al*, 2004).
  - *Environment-of-business Strategies* (Kallman & Shapiro, 1978; Ackelsberg & Arlow, 1985; Robinson *et al*, 1986; Watts & Ormsby, 1990 and Matthews & Scott, 1995).
  - *Latent Abilities and Personal Goals* (Rice, 1983; Olson & Bokor, 1995 and French *et al*, 2004).

3.3 Research Question 3

What are the performance dimensions that investors expect in the future performance of an early growth stage QSE, once capital has been allocated?

For example:

- *The dimensions of performance applicable to SME's are:*
  - *Quality*
  - *Time*
  - *Flexibility*
  - *Customer Satisfaction*
  - *Finance*
  - *Human Resources*

(Globerson, 1985; Dixon, Nanni & Vollman, 1990; Lynch & Cross, 1991; Neely *et al*, 1996; Neely *et al*, 1997 and Hudson *et al*, 2001)

3.4 Research Question 4

How has Black Economic Empowerment recalibrated investors' expectations of early growth stage QSE business planning process and content and future performance?

For example:

- *Investors expect investee ventures to comply with the requirements of the QSE BEE Scorecard* (*http://www.thedti.gov.za/bee/complete.pdf*, Accessed 23 April 2006)
- *The environment-of-business strategy will need to include elements that incorporate BEE in the shareholding and management structure of the venture* (BEE Com, 2001)
- *The Human Resources strategy will need to include elements of skills transfer and development and employment equity that indicate integration of BEE in the QSE's business planning* (Government Gazette, 2004)

The first two research questions covered relevance, extent and activities pertaining to process and content sophistication in early growth stage QSE business planning. The last two research questions covered the financier's expectations of future performance of the early growth stage QSE both with and without the impact of Black Economic Empowerment.

The overall result of the study determined whether the expectations of financiers of early growth stage QSEs are consistent with what was uncovered in the literature review.

Finally, a holistic consideration of the responses to these research questions attempted to provide solutions to the individual sub-problems comprising the research problem. These individual solutions help build a solution to the overall research problem.

4 RESEARCH METHODOLOGY

4.1 Research paradigm

This study is intended to reveal the nature of and gain insight into the expectations of investors regarding the process and content issues surrounding early growth stage QSE business planning when these entities attempt to attract finance. It is also intended to gauge their expectations of future performance and how these expectations may have changed within the context of Black Economic Empowerment. The qualitative research paradigm was selected for the research study. Qualitative research focuses on phenomena that occur in natural settings and these phenomena are studied in all their complexity and multiple facets, "often with the purpose of describing and understanding the phenomena from the participants' point of view" (Leedy & Ormrod, 2001:101).

Given the characteristics of both the quantitative and qualitative research paradigms as described by Leedy & Ormrod (2001), a qualitative approach was selected for this study for several reasons:

- Purpose: to describe and explore,
- Nature of the research process: dependent on the context and gauges personal views, and
- Method of data collection: in-depth semi-structured interviews.
- Reasoning in analysis: unknown variables, small sample size

The above characteristics informed the adoption of the qualitative research paradigm and distinguished it from the quantitative research paradigm.

Creswell's (1994:5) qualitative paradigm assumptions underpinned this research, and were considered throughout the process:

- "researchers interact with that being researched",
- "value-laden and biased" role of values,
- "reality is subjective and multiple as seen by the participants in a study",
- The research language is "informal, evolving decisions, personal voice [and] accepted qualitative words".

Miles & Huberman (1994) state that there is an advantage of in-depth qualitative research on relatively small samples: the intention is to generate information about complex social dynamics, which cannot be accessed using quantitative survey questionnaires. Using a qualitative research analysis paradigm filled a gap in the literature as expectations of the respondents are explored, thereby eliminating the impact of other variables on the entrepreneur's ability to be successful in attracting finance.

4.2 Research design

The design of the research is descriptive. In-depth semi-structured interviews were used as the method of data collection. The interview was based around open ended questions (Leedy & Ormrod, 2001) and allowed for in-depth discussion and probing (Pirow, 1990), as well as a change in focus when new data became available (Leedy & Ormrod, 2001).

While there are disadvantages associated with semi-structured interviews, certain advantages informed this choice of instrument for the collection of the data that would inform the results of this research. These were as follows:

- Scope: it provides an opportunity to cover an array of data and topics (O'Sullivan, Rice & Saunders, 1994).
- Control: the researcher has control over both the questions asked and the environment (Pirow, 1990; Creswell,1994),
- Flexibility: it enables the researcher to prompt and probe as necessary, thereby permitting evolution of the research problem (Pirow, 1990; Leedy & Ormrod, 2001),
- Extent of information: A large amount of useful information is provided (Leedy & Ormrod, 2001),
- Clarity: The opportunity to clarify any misunderstandings is available immediately (O'Sullivan, Rice & Saunders, 1994), and
- Experience: respondents can "provide historical information" (Creswell,1994:150) i.e. their responses are guided by their experience
- Observation: it enables the researcher to note non-verbal behaviour of the respondents such as body language (Pirow, 1990),
- Ease of accessing information: it provides access to information that is difficult to obtain through other research methods (O'Sullivan, Rice & Saunders, 1994; Miles & Huberman, 1994),

On the contrary, there are several disadvantages associated with the use of in-depth semi-structured interviews for data collection:

- The respondent's own perspective introduces bias (Creswell,1994),
- The researcher may misinterpret data relative to the respondent's intended meaning (O'Sullivan, Rice & Saunders, 1994).
- The researcher, by virtue of his or her presence, may alter what people say and how events unfold (Creswell,1994),
- "not all people are equally articulate and perceptive" (Creswell,1994:150),

The researcher attempted to mitigate these disadvantages by continuously reiterating the research questions, clarifying with the respondent the intended meaning of their responses, summarizing the responses, avoiding ambiguity and not intentionally leading the respondent.

The qualitative research design also took the form of a content analysis. Content analysis is a detailed, systematic examination of the contents of a particular body of material to identify patterns, themes, or biases (Leedy & Ormrod, 2001). In this research the content analysis was carried out on the transcripts of the interviews which took place between the researcher and the respondents.

4.3 Population and sample

The population in this research was considered to be all the financiers, investors, entrepreneurs and funders of small businesses, particularly early growth stage qualifying small enterprises, to the extent that they are subject matter experts on small business planning. The sample for this research comprised government funding agencies, venture capitalists, private equity investors, and fund managers located within Gauteng, South Africa.

Triangulation allows for the use of data from multiple sources, each of which may possess different types of errors or weaknesses, to ensure that a more objective understanding of the data can be obtained across the different sources to assist in data convergence (Yin, 1994). For the purpose of triangulation the researcher considered the above stakeholder groupings to be sufficient.

The sample design is purposive (Morton-Williams, 1985). No attempt was made to select respondents randomly (Creswell, 1994); however the researcher endeavoured to be objective in selecting the respondents (Morton-Williams, 1985). The researcher purposefully selected respondents who:

- o Had the required experience to answer the research questions (Creswell, 1994),
- o Are representative of the population (Morton-Williams, 1985), and
- o Were expected to give normal perspectives to the research questions (Leedy & Ormrod, 2001).

The sample size comprised 12 respondents and was limited by the concentration of players that finance early growth stage QSEs. Considering the focus of the study, i.e. early growth stage QSEs and the investors' expectations of their business planning behaviours, purposive sampling from the full membership of SAVCA was done. This was considered appropriate for this study due to the following:

- o "Venture capitalists focus on the middle part of the classic industry S-curve. They avoid both the early stages, when technologies are uncertain and market needs are unknown, and the later stages, when competitive shakeouts and consolidations are inevitable and growth rates slow dramatically." (Zider, 1998)
- o Full membership of SAVCA comprised government funding agencies, venture capitalists, private equity investors and various fund managers.
- o Relevant information pertaining to the member was readily available, e.g. minimum and maximum investments, industry preferences, stage of business preferences and size of fund.

Of the 62 full members of SAVCA published in its SAVCA Yearbook 2005, only 20 were identified as being appropriate for this study. This purposive sampling was based on the following criteria:

- o The stage of investment preferred is early growth stage businesses
- o Investments in the range of R 0 to R 15 million are made
- o Investment industry preferences covered a wide range

Of the 20 members that were eligible to participate in this research, 5 were based in provinces other than Gauteng, 2 were no longer in business and 1 declined to participate. The final sample comprised 12 respondents that operated from the Gauteng region and were made up of government funding agencies, private equity investors, venture capitalists and fund managers. This make-up of investor profiles was considered sufficient to give effect to triangulation. The following respondents participated in the research study:

Institution	Name	Designation
Argil Venture Capital (Pty) Ltd.	Saul Cohen	Fund Manager
Blue Catalyst Investment (Pty) Ltd.	Chris Sochanski	Fund Manager (resigned)
Business Partners Limited	Nic van Nieeuwenhuizen	Area Manager
Decorum Capital Partners (Pty) Ltd.	Neil Gardyne	Chief Operating Officer
Export Venture Capital Corporation (Pty) Ltd.	Fred von Ketelholdt	Director
Industrial Development Corporation of South Africa Limited	Moses Silinda	Divisional Head – Media and Motion Pictures
Khula Equity Fund	Freddie Bruintjies	Chief Operating Officer
National Empowerment Fund	Campbell Barnes	Fund Manager
Grofin Capital	Kevin Walsch	Operations Specialist
Treacle Venture Partners (Pty) Ltd.	Konrad Fleischauer	Director
Triumph Venture Capital (Pty) Ltd.	Mark Eccles	Director
Vantage Capital Fund Managers (Pty) Ltd.	Chris Lister-James	Director

Table 5: Respondents Interviewed

4.4 Data collection

The respondent nominated was initially contacted telephonically to inform him/her of the purpose of the study, the research process, topics to be covered and the expected duration of the interview. The researcher then invited the nominated respondent to take part in the study. Upon acceptance, communication was sent to thank the respondent for willingness to participate in the research and confirming the venue, date and time of the interview. Each respondent was also offered a copy of the research report as an incentive for participating in the study. Respondents were guaranteed that all responses will remain confidential and anonymous (Refer Appendix A for a copy of the Telephone Protocol).

The in-depth semi-structured interviews occurred at the interviewees' respective offices as it was convenient for respondents and more likely to put them at ease in talking to the researcher. One interview, however, was conducted telephonically. Each interview was recorded (except for the telephonic interview) and transcribed thereafter. Notes were taken during the interviews to complement the recordings, mitigate the risk of equipment failure and to note non-verbal behaviours. Interview durations ranged from 37 minutes to 85 minutes.

Creswell's (1994) interview protocol format was followed for each interview (Refer Appendix B for a copy of the Interview Protocol). The components of the protocol are:

(a) Heading,

(b) Opening statements and instructions to the interviewee,

(c) Key research questions that were asked,

(d) Probing questions following on from each key question,

(e) Transition messages or closing remarks,

(f) Interviewer's comments, and

(g) Reflective notes.

4.5 Data analysis

Transcripts from the in-depth interviews with respondents were content analysed. The data analysis activity and compilation of the research report took place concurrently with the collection and interpretation of the data. This is unlike quantitative research where the process is linear and sequential (Creswell, 1994).

Creswell's data analysis spiral cited in Leedy & Ormrod (2001) was deployed:

(a) The data was organized by using a computer database, breaking down into sentences or units

(b) The data was perused several times and viewed in order to get a sense of the data in its entirety and possible categories and interpretations were noted around the broad themes presented in the literature review,

(c) The data was reduced to categories, themes or groupings, interpreted through the use of schemas (Creswell, 1994), and coded according to the SME business planning aspects, activities and performance criteria identified in the literature review (Refer Appendix C for list of codes). This process may be seen as a drill down analysis of the transcript content as follows:

- Descriptive master codes were assigned to each of the research questions
- Sub-codes were used to categorize those issues that were linked to each of the research questions
- Third-level codes were used to categorize those details that were drilled down from the issues identified by the sub-codes
- Different codes were assigned to other emerging details not categorized under the master, sub- or third-level codes

(d) The data was integrated and synthesized. This is represented in the form of tables and matrices and is related back to the research questions.

The use of codes facilitated organization, retrieval and analysis of the data. Each concept mentioned by a respondent was coded and the details surrounding an idea were grouped together. Data that did not relate to any particular category of code was grouped separately and assessed for any indication of a pattern or trend. The frequency of each issue identified from the transcripts was tabulated. Furthermore, frequencies were determined by the number of times a particular issue was mentioned. This informed the researcher of the perceived importance of these identifiable factors across the respondent base. No statistical analyses were performed on these results. The results from this analysis has served to confirm, question the existence and / or suggest further research in the expectations of investors regarding small business planning issues and performance.

4.6 Validity and reliability

Validity is concerned with whether the semi-structured interview "measures what it is supposed to measure" (Leedy & Ormrod, 2001: 31) and whether it will lead to valid conclusions regarding investor expectations of small business planning and performance. Internal validity is the extent to which the design of the research and its resulting data allow inferences about causal and other relationships between data elements, and external validity is the extent to which the research results apply to situations beyond the study itself (Leedy & Ormrod, 2001).

4.6.1 Internal validity

Internal validity attempts to "minimise alternative explanations for the results obtained" (Leedy & Ormrod, 2001:107). Rowley (2002) states that internal validity is more relevant in studies that try to establish a causal relationship and not relevant in most observational or descriptive studies. However, the internal validity of the research was checked amongst respondents involved in the research by asking them to verify whether the conclusions arrived at are representative of reality. This was done by providing each respondent with the findings with a request for comments.

4.6.2 External validity

To ensure external validity the findings need to be generalisable, implying that the sample is representative of the population (Leedy & Ormrod, 2001). However, Creswell (1994) said that the intent for qualitative research is an attempt to interpret the event from a unique perspective, not to be able to infer the findings onto the population. The validity criterion used in this research is that it is cogent. "A real-life setting" (Leedy & Ormrod, 2001:105) and adequate triangulation (Miles & Huberman, 1984 and Yin, 1994) enhances the external validity.

4.6.3 Reliability

Reliability is defined as the extent to which similar research conducted in future will result in similar outcomes (Leedy & Ormrod, 2001). This study is limited in the extent to which it might be reliable: it is unlikely that the same study conducted in a different context would achieve the same results. The fact that the researcher personally conducted all the interviews ensured equivalence. However, the role and interpretations of the researcher have played a significant part in the initial observations and final interpretations of the body of data from which the analyses were done. Therefore, similar research by another researcher might not lead to exactly the same results. However, the researcher attempted to improve the chance of reproducing the results by:

- Purposive selection of respondents from various financing bodies / institutions,
- Operating in a consistent and systematic manner during the interview using a semi-structured interview protocol,
- Relating the views of the respondents to the conceptual framework derived from the literature review during the analyses using a computer database, and
- Providing the detail regarding central assumptions, and adhering to set steps throughout the research process (de Ruyter & Scholl, 1998).

4.7 Limitations of the study

The competitive environment in which investors operate may have inhibited the responses of the participants, especially when referring to investor appraisal mechanisms within their own institutions. Moreover, the respondents may have responded with a need to portray their own companies in a positive light.

Respondents may not have had the theoretical knowledge when providing answers to the research questions. Given the terminology used in the literature review and the resulting research questions based thereupon, it was noted that some respondents took up a significant amount of interview time seeking clarity on the terms and jargon used in the interview protocol.

One interview was conducted telephonically. This interview yielded shorter responses with limited discussion related information. Furthermore, the transcription of the telephonic interview was only based on the notes taken during the interview. This resulted in an incomplete transcript of the actual interview. This limitation relates to the lack of robustness of the telephonic interview and hence the quality of the interviews in totality was inconsistent.

During three interviews, the tape recorder ran out of storage space. These interviews were not as accurately recorded as those that were fully taped. The interviewer was limited in the ability to concentrate on the responses of the interviewee given the requirement to take notes. The limitation entails the incompleteness of the transcription following thereafter.

Time constraints restricted the coverage of the research to a broad analysis of business planning aspects, rather than a detailed coverage of the process and content issues surrounding small business planning. An example of potential further investigation is the involvement of investors in the small business planning process.

5 PRESENTATION AND DISCUSSION OF RESULTS

5.1 Introduction

The aim of this chapter is to present and discuss the results gleaned from a content analysis of the transcripts of the in-depth semi-structured interviews that were conducted with the respondents. Using the comments made by the respondents, additional insights into the various issues surrounding business planning among small businesses, particularly qualifying small enterprises, are provided. In many instances, quotes were taken directly from the transcript and were quoted verbatim, notwithstanding the possibility of grammatical error.

The chapter commences with an exploration of the process issues involved in small business planning among QSE's in the early growth stage. This is followed by the results relating to the strategic content issues in a business plan that is submitted by an early growth stage QSE when finance is sought from an investor. Thereafter, the results linked to investor expectations of investee venture performance are evaluated and discussed. Following this are the results linked to the role of black economic empowerment on investor decision making. Finally, a summary of the major findings is also presented.

It should be noted before hand that response significance was gauged by the frequency counts of response statements that were made. While in some instances, the cumulative frequency associated with a theme summed up to the total number of respondents, there are themes where multiple statements could have been made by each respondent or a respondent could possibly not have commented on that theme, in which case the cumulative frequency count could either exceed or be less than the number of respondents that participated in the study.

In order to present a smooth flow of discussion topics, the results are presented in an order that covers each topic area in its entirety before moving on to the next.

5.2 Investor expectations of process formality in QSE planning

Statements associated with process formality were categorized under a master code. A drill-down technique was applied to each statement in the transcript under this master code by classifying the responses into further categories (identified by major prompt areas gleaned from the literature review), each of which was assigned a sub code. 4 major sub-codes were assigned under the master code associated with process formality. These are:

- PF-R: Relevance of process formality in small business planning
- PF-A: Applicability of process formality to the stages in a business' life cycle
- PF-S: Steps in the process of formal business planning among QSE's.
- PF-E: The extent of formality among QSE's as experienced by investors

Then, these categories were then drilled down even further to highlight common themes that emerged from the discussion and were assigned a third level code. Each third level code was rated in importance by the number of times that emerging issue was commented on. In essence, the higher the frequency count of any particular theme, the more important or significant that theme was considered to be.

As this research is qualitative in nature, it is expected that the research problem would evolve. Therefore the major themes were seen as emergent and not necessarily motivated by or selected based on any foregoing criterion. The emergence or evolution of the theme was gauged by the number of times that particular theme was mentioned. As long as the grouping of similar statements yielded an overall theme, then that theme was analyzed and reported on.

5.2.1 <u>Relevance of process formality in small business planning</u>

Table 6 shows the categorized themes that emerged from prompting responses related to the relevance of process formality in small business planning.

PF-R-ROF Relevance of Formality	Times Mentioned
Vital, no business can exist with out it, critical, crucial, definitely relevant and important, extremely relevant, an integral part of being in business, relevant from before investment is made	8
Relevant to the extent that other areas of the business do not battle for the entrepreneur's time, should not be neglected but too much time should not be spent on it.	2
Not really relevant from an ongoing perspective	1
Not required.	1
PF-R-ITF Impediments to Formality in Planning	**Times Mentioned**
Limited Capabilities / Skills	6
Perceptions / Personality / Attitude of the entrepreneur	4
No Time / Too operationally involved	3
No Resources	3
Idea / Entrepreneur considered more important	2
Outside consultants have no idea of concept	1
Rigidity and Preconceived ideas	1
General Processes not in place	1
Wrong departure point - convincing third parties	1
Size of the business	1
PF-R-BOF Benefits of Formality in Planning	**Times Mentioned**
Forces the entrepreneur to think	5
Long term view / future direction of the company	4
Control on costs / improved performance	3
Formality in business planning is not beneficial	2
Keeps the entrepreneur aware of change	1
Gives the investor confidence	1
PF-R-IID Impact of Formality on Investor Decisions	**Times Mentioned**
Desirable / positively influences / adds credibility	5

Likely to influence the investor / aids in decision making	3
Is a pre requisite for getting funding	2
Not going to influence investor / no effect on investor	2
PF-R-SIP Stakeholder Involvement in Formal Planning	**Times Mentioned**
Not commented on	4
Entrepreneur must do the plan himself	3
Investor manages with entrepreneur and helps with plan	2
Investor monitors - management accounts, strategic sessions	2
Investor involvement at base plan stage	1
Investor mentorship / supplements skills	1
Entrepreneur should use outside skills	1

Table 6: Frequency Count of Process Formality Issues Associated with Relevance

The findings show that the major portion of investors believes that process formality is absolutely vital in small business planning.

Limited capabilities, skills and resources impede the required depth of formality among QSE's but this is also complemented by the individuality of the entrepreneur such as his attitude towards and perceptions of the benefit of formality in QSE business planning. Furthermore, the entrepreneur becomes too operationally involved in the QSE and therefore has little time to actually do formal business planning.

The benefits of formally planning lie in the fact that it forces the entrepreneur to think about the business and take a long term-view of the direction of the company. Moreover, investors perceive that entrepreneurs will have a better control on the costs and performance of the QSE if they formally plan.

Formal planning positively influences the investor by adding credibility to the QSE. It is seen as desirable and likely to also aid the investor in decision making. Although not many respondents commented on this, there are some that mentioned that formality in business planning is actually a pre-requisite for obtaining funding.

Finally, the involvement of stakeholders in formal planning also emerged as a theme. Only a few respondents commented on this theme, where, a higher number thought that the entrepreneur must do the plan himself. However, the investor also gets involved in varying degrees such as management relative to the plan, monitoring via management accounts and supplementing the skills of the entrepreneur through mentorship.

All the emerging themes supplement the finding that formal business planning is indeed relevant to an early growth stage qualifying small enterprise.

5.2.2 Applicability of process formality to the stages of a small business

Table 7 reveals the emerging themes and the frequency count with respect to the applicability of formality in business planning to the stages in the small business life cycle.

PF-A-FAQ Focus area for the Early Growth stage QSE	**Times Mentioned**
Liquidity / Working Capital / Cash Flow / Cost Controls / returns / capacity	3
Operational Involvement / delivery of results / meeting milestones	3
Practicality of the idea / Entrepreneur skills	2
Longer term view / future direction / growth	2
Other considerations	2
PF-A-LRQ Level of Formality Required by Early Growth Stage QSE	**Times Mentioned**
Document with monitoring and control	7
Management Reports / Feedback	4

Strategic Review Sessions / Budgetting	3
Shareholders / Board Meetings	2
Formality not necessary / relevant	2
Communication / Consultation	2
Testing and reassessment	2
Document only	1
PF-A-OSB Applicability to stage of business other than early growth stage QSE	**Times Mentioned**
All Stages	9
More relevant in later stages	2
More relevant in earlier stages	1
PF-A-EOS Extent of Formality in Stages of Business other than early growth stage QSE	**Times mentioned**
Increases with higher maturity	7
Formality is never fixed	1
Intensity higher at early growth stage	1
Other comments / Not commented on	3

Table 7: Frequency count of emerging process formality issues relating to applicability of formal planning to the stages in a small business life cycle

Respondents highlighted that the focus area for a QSE in small business formal planning would be financial considerations such as liquidity, working capital, cash flow, cost controls, returns and capacity. Equally important are operational efficiency, delivery of results and meeting milestones as set out in the plan.

The level of formality required is primarily a business plan document with monitoring and control mechanisms in place. This could be in the form of management reports, strategic review or budgeting sessions and shareholders / board meetings.

Formality in the process of business planning was strongly considered to be applicable to all the stages in the business life cycle of an investee company. The extent of formality was significantly seen by investors to increase with maturity of the business over time i.e. the later stages in the business life cycle.

The overall finding is that process formality in business planning is applicable to all stages in the business life cycle of a company, the extent of which will increase as the company becomes more mature. This formality is characterized by a documented business plan with some form of monitoring and control in place for a QSE. The QSE should be results orientated and focus on financial issues.

5.2.3 Process steps in formal planning among QSE's

Table 8 shows the formal steps investors expect in the planning process of an early growth stage qualifying small enterprise.

PF-S-TTP Thinking through a plan	**Times mentioned**
The entrepreneur must give adequate thought to the plan	12
Give thought to changes in the environment	*2*
Think about the reality or practicality of the idea / brainstorming of the idea is needed	*2*
Think about the cash Flow	*1*
PF-S-DOP Documentation of the plan	**Times mentioned**
Plan must be documented / there must be a living, working document	12
Entrepreneur, Investor or Mentor get involved and drive the plan to a formal document / entrepreneur must do the document and it should support the entrepreneur's thoughts	*6*
Documented plan must be detailed and clear and fundamentals must be in place	*4*
Cigarette Box document, Small summary	*2*
Documentation on an ongoing basis is not needed but must be up to date when applying for finance and complete.	*1*

PF-S-MAE Monitoring and Evaluation	**Times mentioned**
Monitoring and Evaluation is necessary	8
It should be done by / with the Investor	*2*
To make changes to the plan after rethinking original thoughts	*2*
To help in planning or executing an exit strategy	*1*
To gauge market acceptance by outsourcing / testing	*1*
To see if business circumstances change	*1*
Monitoring and Evaluation is not necessary / cannot be done	3
There are no benchmarks to monitor against	*1*
It is dangerous to monitor according to plan for a QSE	1
PF-S-FAC Feedback and Control	**Times mentioned**
Feedback and control is necessary in formal planning	8
Feedback must be given to shareholders via shareholder's meetings	*5*
Communicate the contents of the plan and actions taken	*2*
Feedback enables buy in and back up from stakeholders	*1*
Give feedback to employees but hold back on certain things	*1*
Assess, reengineer / review, adapt / change / update the plan	*5*
Control the business relative to the plan / re-steer the business	*2*
Ensure that the entrepreneur keeps the plan in mind / stays in strategic focus and controls the business accordingly	*2*
Control helps draw the line in terms of capacity	*1*
Feedback and Control is not necessary / cannot be done	4
The are no benchmarks to control the business against	*1*
PF-S-OSM Other steps not mentioned in a category	**Times mentioned**
Do research, review history, conduct analysis, establish objectives, develop strategies	7
Generate management reports and accounts	4
Test the plan after thinking in a practical environment	2
Consultative process	1

Table 8: Frequency count of process issues relating to steps in formal planning

All the respondents confirmed that it is necessary to give adequate thought to the business plan, although to varying degrees. Issues such as the practicality of the business idea, the changes in the business environment and cash flow considerations must be given adequate thought.

All respondents unanimously supported the need for a document. Very few respondents actually required a brief document, but most respondents believed that the document must be a living document, detailed and clear and should support the thoughts of the entrepreneur, with the fundamentals of the business in place. It must be up-to-date and complete.

8 of the 12 respondents (67%) said that monitoring and evaluation is a necessary step in the process of formal planning. It is done with investor involvement and helps to control the plan after rethinking the original thoughts on which the original plan was based, to monitor changes in the business environment, to gauge market acceptance of the product or service during testing and to help in planning or executing an exit strategy. 25% of respondents believed that monitoring and evaluation was not necessary or could not be done because at the early growth stage, a QSE does not have benchmarks to measure its performance against. 1 respondent said that it is dangerous to monitor the business performance relative to the plan because at the early growth stage, a QSE could have based the plan on wrong assumptions.

67% of the respondents said that feedback and control is a necessary step in the process of formal planning. Feedback should primarily be given to shareholders on the content of the plan and the actions taken via shareholders' meetings. Although not significant, one respondent mentioned that feedback should be given to employees, but certain things should not be divulged within discretion. Control could be achieved in either of two ways viz. revisiting the plan by adapting it, changing it or updating it or control could be achieved by re-steering the business according to plan by keeping the original strategic focus in mind. Control also is necessary to be able to draw the line in terms of the capacity of the business. 33% of the respondents said that it was not necessary to give feedback or control the business relative to the plan. There is a possibility that feedback and control cannot be done because there are no benchmarks to control the business against.

Other issues emerging in the analysis involved a substantial support for research, reviewing history, conducting analyses, establishing objectives and developing strategies. As simplified in the literature review, these steps are actually embedded in the thought process which was unanimously supported. 4 respondents stated that there is a need for management reports and accounts. While this can be seen as a form of monitoring and evaluation, it also depicts a method of feedback and control of the business and should be regarded as a significant part of ongoing business planning among early growth stage QSE's. 2 respondents mentioned the need to test a plan in a practical environment before documenting it. This was necessary to identify flaws in the thought process and to gauge the market acceptance of the idea.

Based on the strength of support uncovered in the analysis, the following are the formal process steps that investors expect in business planning among QSE's in the early growth stage:

- Give adequate thought to the business idea and issues surrounding the business. Do research, review history, conduct analyses, establish objectives and develop strategies for the business
- Test the concepts in a practical business environment and review the thoughts
- Document the plan in a formal, clear and detailed business plan
- Monitor the performance and evaluate the plan-performance relationship
- Give feedback to shareholders regarding the performance of the business and the business plan underpinning that performance via management accounts and reports and control the performance outcomes by either revising the plan or re-steering the business.

5.2.4 QSE formal planning extent as experienced by investors

Table 9 represents the results of process formality issues relating to the investors' experienced extent of formal planning among early growth stage QSE's.

Investors General Experience of Entrepreneur's Planning Behaviour	**Times mentioned**
General Lack / no general behaviour to do formal planning on an ongoing basis	8
Thinks through a plan and does some degree of documentation	2
Generally thinks through the whole chain of events	1
Not sure	1
Drivers of Propensity to do / not do formal planning	**Times mentioned**
Power of the stakeholders and voting rights of external parties	5
Need to convince third parties / seeks funding	4
Entrepreneurs don't have time. Focus more operational	4
Skills / Processes / Systems are not in place. Size of the business / learning curve influences propensity to plan formally	3
Entrepreneur's background / individuality / personality	3
Power of the entrepreneur, motivation, perception of value-add	3
Categories of Planners	**Times mentioned**
Informal Planners	8
In between informal and formal	2
Formal Planners	2
Other issues	**Times mentioned**
Investor provides assistance with more formal steps of planning	2
Investor prefers informal planning because it takes away rigidity	1

Table 9: Frequency count of process formality issues relating to the investors experienced extent of formal planning among early growth stage QSE's

Table 9 shows that there is a general lack of formal planning among early growth stage QSE's. 67% of the respondents indicated that there is no general behaviour to do formal planning. 25% of the respondents felt that some degree of thinking occurs but that is where the process stops i.e. further process steps adopted are incomplete. 1 respondent mentioned that he was not sure of the general planning behaviour.

The biggest driver of the propensity of the entrepreneur to do formal planning is the power of the stakeholders in the business. For example, investors that take a stake in a particular enterprise may force the entrepreneur to do formal planning. Drivers of the propensity not to do formal planning are: (1) negative perceptions of the need to formally plan such as only to convince third parties or to seek funding, time consuming, (2) individuality of the entrepreneur such as his background and personality, motivation and his voting right in the enterprise and (3) basic skills, processes and systems are not in place but as the business grows, the learning curve influences the propensity of the entrepreneur to do formal planning. These drivers of the propensity not to do formal planning are congruent to the impediments to formal planning discussed in 5.2.1.

67% of the respondents indicated that those entrepreneurs that plan may be classified as informal planners i.e. they think through a plan only but seldom document the plan. 17% of the respondents believe that early growth stage QSE entrepreneurs that do formal planning are actually formal planners i.e. they think through the business issues and submit a well documented business plan. Hence, little formal planning goes on amongst early growth stage QSE's. Investors have not indicated a general behaviour among early growth stage QSE's to do sophisticated planning i.e. monitoring, evaluating, giving feedback and controlling their businesses relative to a well documented business plan.

Although not significant, respondents mentioned that investors get involved with the entrepreneur in the process of formal planning.

5.3 Investor expectations of strategic content in QSE planning

A similar analysis procedure to that adopted in 5.2 was used to analyze the issues pertaining to strategic content expected by investors in a business plan that is submitted by an early growth stage QSE seeking funding. 4 major sub-codes were assigned to the master code, strategic content:

- SC-R: Relevance of strategic content in small business planning
- SC-A: Applicability of strategic content to the stages of the business life cycle
- SC-C: The content elements of a business plan that is presented to an investor by an QSE when funding is sought
- SC-E: The extent of strategic content sophistication among QSE's as experienced by investors

Emerging themes, as discussed in 5.2 were highlighted. The order of these themes does not indicate any rank or hierarchy. However, higher frequency counts in individual (or similar) statements supporting a particular theme indicated a greater significance of those statements relating to the theme.

5.3.1 <u>Relevance of strategic content in small business planning</u>

Table 10 reveals the emerging issues relating to the relevance of strategic content and sophistication in strategic planning as perceived by investors in early growth stage qualifying small enterprises. These issues emerged as evolutionary themes in the research problem by respondents being prompted to comment on the relevance of strategic content and sophistication in strategic planning to qualifying small enterprises in the early growth stage.

SC-R-RSC Relevance of strategic content to an early growth stage QSE	Times mentioned
Extremely relevant, very relevant, vital, critical	6
Relevant to a limited extent, somewhat relevant, not always important	6
Not relevant	0
SC-R-ITS Impediments to sophistication in strategy	**Times Mentioned**
Priority focus: operational focus rather than strategy, cash flow, resources are required by the investor, too much strategic focus, no implementation is not healthy	6
Individuality of the entrepreneur: lack of calibre, passion, instincts, motivation, insight, , perception + lifestyle attitude, complacency, laziness	4
Stability of the business: existing strategies and history prevent the need to re-strategise, perception that strategy is only applicable to larger businesses	4
Shortage of skills and experience, not enough strong people to influence the company strategy	4
Power / Influence of the entrepreneur	2
Entrepreneur has an obscured view of reality because he becomes too attached to the idea irrespective of what the strategy says	1
Shortage of business history	1
SC-R-IID Impact on investor decision making	**Times Mentioned**
Doesn’t play a major role in investor decision making, No emphasis placed on it	2
Positively influences the investor's propensity to allocate capital	1
Does not influence our decision making	0
SC-R-BSC Benefits of strategic content	**Times Mentioned**
Helps garner entrepreneur skills and experience	3

Gives direction to entrepreneur goals and ambitions	2
It is flexible and allows the entrepreneur to address only those issues that are immediately important	2
Provides the opportunity for asking the hard questions and making decisions	1
Provides the opportunity to capitalise on competitor weaknesses	1
Adds credibility to the entrepreneur	1
Makes due diligence done by the investor much easier	1
Gauges the sensibility of the idea	1
Helps build up a consistent financial model	1
SC-R-SIS Stakeholder involvement in strategy	**Times Mentioned**
Investor serves as an overseer on the level of understanding of the entrepreneur, monitors and has ideas tested against his knowledge	3
Provides a template which the entrepreneur can populate	2
Investor prepares the entrepreneur from scoping through prefeasibility to a bankable study	1
Helps the entrepreneur mitigate risk	1

Table 10: Frequency count of strategic content issues associated with relevance

The findings indicate that while all respondents considered strategic content in a business plan to be relevant, the perceptions were divided into 2 almost equivocal schools of thought: 50% of the respondents believed that strategic content is vital while the others perceived it to be relevant to a limited extent and therefore plays only a small role in investor decision making.

Sophistication in strategic planning that culminates in the content elements of the business plan is impeded mostly by the priority given to the operations, cash flow and resources of a small business. These priorities are requested and expected by investors, who believe that it is important to first get the business “ticking like clockwork” rather than spending this important time on strategy of the company.

Investors also expect factual information substantiating the strategy and implementation of the strategy rather than vast amounts of time spent on the strategic content itself. This is probably one of the reasons as to why a significant amount of investors believe that strategic content is relevant only to a limited extent.

Further impediments to strategic sophistication are:

- The individuality of the entrepreneur: this includes poor motivation, negative attitudes, lack of instincts and insight as well as his perception of no value of strategic content sophistication.
- The stability of the business: if a business is stable and has some history and existing strategies, then the attitude of “let sleeping dogs lie” creeps in. The need for ongoing strategic planning is then seen to be irrelevant. Also, the perception that strategic sophistication is only applicable to larger businesses prevents the need for strategic planning.
- The skills level inherent in the business: A shortage of skills and experience prevent staff from influencing the strategy of the company or getting involved in strategy development

Although very few respondents commented on the impact of strategic content and sophistication on the investor’s decision-making to allocate capital, it is seen that the higher of the responses supported the case for strategic content not playing a major role in investor decision-making. Nevertheless, due to an insignificant number of responses, the results indicate that there is not enough evidence to support the role of strategic content in a business plan in the investor’s decision-making to allocate capital, hence the result is inconclusive.

The results indicate that strategic content and sophistication in the development of strategies is more beneficial to the entrepreneur than to the investor in the following ways:

- It helps to garner skills and provide experience to the entrepreneur
- It gives the entrepreneur direction in the accomplishment of his goals and ambitions
- It is flexible enough to cause the entrepreneur to focus his attention to those issues that are immediately applicable to the business at a specific point in time.

Considering the almost equivocal response to the relevance of strategic content to a small business, it is not surprising that strategic content benefits the investor only to a small degree such as making due diligence easier.

The results also indicate that investors only serve as overseers / monitors of the strategic thought that entrepreneurs give to the business plan. They assist the entrepreneur by making available themselves for the testing of ideas and provide templates / checklists that the entrepreneur could use when giving thought to the strategies that need to be developed.

5.3.2 Applicability of strategic content sophistication to stage of business

Table 11 shows the emerging themes on the applicability of plan content and strategy sophistication on the various stages of the small business throughout its life cycle.

SC-A-FAQ Focus area for an early growth stage QSE	**Times Mentioned**
Entrepreneur characteristics - passion, experience, abilities, commitment, risk appetite, track record	9
Operational management - getting the business to work	6
Ask the hard questions	1
Pursuit of opportunities	1
Financial performance	1

SC-A-SRQ Sophistication required for an early growth stage QSE	Times mentioned
Financials	3
Operational plans	2
Market analysis	2
Product offering	2
Full blown strategic plan	2
simple strategy	2
Expansion and growth strategy	1
Risk Analysis	1
Human Resources and Team capabilities	1
SC-A-OSB Applicability to stages of business other than early growth stage QSE	**Times Mentioned**
Applies to all stages of the business	7
More relevant to the later stages as the business becomes more mature	3
Applies to later stages seeking for high value funding	1
Not relevant when business is stable or at later stages	1
SC-A-SOS Extent of sophistication expected in stages of business other than early growth stage QSE	**Times mentioned**
No comment	7
Higher levels of sophistication with more mature stages	4
Higher levels of sophistication with more mature stages and as higher value funds are applied for	1

Table 11: Frequency count of strategic content emerging issues relating to the applicability of strategic content and sophistication to the stages of a business life cycle

The results indicate that investors expect QSE entrepreneurs to focus on themselves, their passion, commitment and risk appetite above all other aspects of business planning when they attempt to obtain funding. Most of the respondents said that the characteristics of the entrepreneur are more important when funding is sought above any form of strategic content. In the case of early growth stage QSE's, it is also very important to make sure that the business is working well and stabilized before attempting any strategy on the company. This is more conducive to obtaining funding that drawing up a sophisticated strategic plan.

Only 2 out of the 12 respondents (17%) of respondents said that a full blown strategic plan is required from an early growth stage QSE entrepreneur while the rest of the respondents required a simple strategy pertaining to at most 4 content elements. In essence, a simple strategy is required with financial information, operational plans, a market analysis and a description of the product offering being considered to be important to the investor.

58% of respondents felt that strategic planning content and the sophistication in the planning pertains to all stages of the business, but the 25% of respondents that said that sophistication in strategic content is more relevant to the more mature, later stages should not be seen as insignificant.

Although 58% of respondents did not comment on the extent of sophistication that investors expect in other stages (than that of the early growth stage QSE), 33% of the respondents indicated that higher levels of sophistication are associated with the more mature stages. 1 respondent also mentioned that higher levels of sophistication are found in mature stages but is also a function of the amount of funding required. If a high value of funding is required, then a more sophisticated approach to the strategic content is expected by the investor.

The entrepreneur should focus on his own personal characteristics when seeking funding. He should also prioritize the stability of the business before embarking on sophisticated strategic planning. A simple plan which addresses financial information, operations, markets and the product offering should be submitted. Although strategic content and sophistication in planning is applicable to all stages of a business, investors expect higher levels of sophistication among the later, more mature stages.

5.3.3 Strategic content expected by investors in a QSE business plan

Due to the vast number of content elements that could possibly go into a business plan that is submitted by an early growth stage QSE entrepreneur, content elements that were considered important to the investor were regarded as those that need to go into the business plan when funding is sought. The relative importance of each content element was weighted by the number of responses that it received from the total sample of 12 respondents. A percentage response was presented which informed the level of agreement between the individual respondents on any particular content element. Table 12 shows the response levels to each of the identified content elements uncovered from the content analysis of the interview transcripts.

SC-C Strategic Content	Responses Received	Percentage Response
SC-C-MKT Marketing Plan	12	100
SC-C-ENT Entrepreneur Characteristics	11	92
SC-C-PRO Product Offering / Business Description	11	92
SC-C-FIN Financial Information	11	92
SC-C-VIS Vision and Mission	8	67
SC-C-EOB Environment of Business Analysis	8	67
SC-C-HRS Human Resource Strategy	8	67
SC-C-COM Competitor Analysis	8	67
SC-C-OTH Other Content Considerations	10	83

Table 12: Response levels to strategic content elements in a business plan

The results shown in Table 12 are congruent to the results obtained in 5.3.2. All respondents believed that an understanding of the markets significantly influence the investor's propensity to allocate capital because the plan will capture the essence of whether the idea will be successful in the marketplace or not. A comprehensive market orientation strategy is therefore desirable by the investor in the business plan.

The product offering or business opportunity was also seen as significant in strategic planning sophistication because it is the epicenter around which all the other strategic content elements revolve. Without this product offering, the investor may not be able to grasp the technical and commercial motivations underpinning the need for funding. Therefore, the business idea / product offering / opportunity needs to be clearly defined in the business plan.

As financial information describes the returns on a particular venture, it provides the investor with information regarding the possible success of his investment. The result is also in keeping with the finding in 5.3.2 where sophistication is heavily weighted toward financial information. The financials presented will assist the entrepreneur in investment appraisals and due diligence. This is crucial if funding is sought, as the entrepreneur needs to gauge what returns he could expect if funding is to be awarded.

Entrepreneur characteristics are both substantive and subjective. Factual information pertaining to track record, experience, skills, abilities and personal goals are substantive and can be gauged from the CV of the entrepreneur and reference checks. This should be carefully captured in the business plan in sufficient detail to warrant investor interest in the entrepreneur. However, characteristics such as passion, commitment, leadership ability and integrity, and risk appetite are subjective, yet are of top priority to the investor in investment decision making. It is then up to the entrepreneur to detail whatever he can in the business plan that brings this to the fore e.g. commitment of his own funds into the opportunity may show an appetite for risk, or, transparency may exhibit integrity. The result here is in keeping with the focus area expected of early growth stage QSE entrepreneurs in 5.3.2.

While content elements such as environment-of-business, competitor analysis and human resources should at least be thought through and documented simplistically, 88% of the respondents felt that vision and mission statements were unnecessary.

Various other considerations were uncovered from the content analysis; however no recurring themes or content elements were significant enough to warrant further discussion. Some of the issues that were considered to be included in the plan were: executive summary, motivation for funds, growth and expansion strategies, contingency plans, supply chain planning and exit strategies. An important point to note however, is that 42% of respondents said that all other strategic content elements must be able to serve as substantiation for the financial models that are presented i.e. there must be consistency of all the content elements with the financial plan.

Reverting back to the results presented in 5.3.2., the findings relating to the strategic content elements of a business plan support investors' overall expectations of a simplistic business plan with at most 4 content elements covered in detail. These are market analyses, plans and strategies, financial information and the product offering. The fourth content element needs to expose the qualities of the entrepreneur, which in the discretion of the investor will culminate in an appreciation of the subjective traits possessed by that entrepreneur. All other content elements should be thought through and presented in the business plan in a brief, simplified way.

The foregoing discussion indicates that investors do not expect high levels of strategic content sophistication. A business plan with simplified discussions of human resources, competitors and environment of business must support a more detailed coverage of the market, financial information, the business idea / product offering and the characteristics of the early growth stage QSE entrepreneur seeking finance. In this way, concerns surrounding an entrepreneur spending too much time on strategy rather than getting out there and making the business work are alleviated. This level of sophistication in planning still helps the entrepreneur garner skills, remain flexible and realize the direction that the business is taking in the accomplishment of his own personal goals and ambitions.

5.3.4 Investors' experience of current general strategic content sophistication

Table 13 shows the results of the experience of investors in the local market regarding the sophistication than entrepreneurs go through in producing the strategic content of a business plan.

SC-E-GCE General current experience of small business strategic content sophistication	Times Mentioned
Generally no sophistication in strategic content	6
They do sophisticated content planning but not formally	2
Entrepreneur has a holistic perspective on all business functions	1
Most cover all the strategic content but no track record and practical experience	1
Varies from inadequate to average	1
They do sophisticated content planning	1
SC-E-CPS Categories of planners currently experienced with respect to sophistication in strategic content	**Times Mentioned**
Crisis management	4
Crisis management to budget planning	3
Budget planning at best	3
Budget planning	2

Table 13: Emerging strategic content themes relating to the experience of investors regarding the sophistication of early growth stage QSE entrepreneurs in producing strategic content

50% of respondents said that there is a general lack of sophistication in strategic content in the business plans submitted by early growth stage QSE entrepreneurs seeking funding. This is perhaps because investors don't place emphasis on strategic content sophistication (see 5.3.2). Even those that attempt it, fall short of greater sophistication by not formalizing the content or lacking practical experience.

83% of respondents felt that QSE entrepreneurs do budget planning at best i.e. they range from crisis management type of planners to budget planners.

5.4 Investor Expectations of Performance of investee QSE's

Although questions prompted responses on the 6 dimensions of performance, open ended discussions with the respondents ensued on performance in general. Therefore the master code was assigned to performance as a general topic and themes that emerged were assigned sub codes. However analysis of the emerging themes revealed no need to further drill down to third level themes as these themes were direct, unsubstantiated statements. Table 14 shows the results.

PE-PMU Measures of performance used by investors for an early growth stage QSE	**Times Mentioned**
Adherence to original business plan, meeting milestones / timelines	5
Equity return on capital	1
Financial performance as a flag of overall performance	1
Time converted to cost can be reported in CSI	1
Bottom line may not be a ready measure	1
Cash burn relative to the original budget	1
Sales indicate acceptance by the market	1
Profitability is an indication of cost control	1
PE-EDP Expected Primary Dimensions of Performance by Investors	**Times Mentioned**
Financial Performance	11
Other performance dimensions - Market performance	1
PE-OTH Other issues regarding performance dimensions	**Times Mentioned**
Other performance dimensions are actually a subset of the financial performance dimension hence financial performance serves as a measure of the other performance dimensions	5
Government funding agencies should have less onerous demands on financing and focus on performance dimensions supporting social upliftment	3

By the entrepreneur showing that he is capable of performing in dimensions other than financial it will positively influence the investor to allocate capital if financial performance dimension is marginal.	2
There are other financing benefits associated with performance in dimensions other than financial e.g. lower required rates of return, lower interest rates	1
The requirements of the fund mandate override all expected dimensions of performance	1

Table 14: Frequency count of emerging issues relating to performance dimensions of early growth stage QSE

The results indicate that the most frequent measure of performance of an investee venture among investors is the ability of the venture to adhere to the original business plan upon which their financing was based. 42% of the respondents were in support of this.

An almost unanimous support for financial performance being the expected performance dimension that a venture needs to perform in is seen coming through in the results. 92% of the respondents supported this performance dimension. This is expected considering the above average returns that investors require from their investment, the very definition of an investor.

Other recurring themes that are seen in the responses are:

- There is a hierarchy in the performance dimensions reported in the literature. All dimensions are actually subsets of financial performance. If financial performance is accurately measured and reported, then the entrepreneur may gauge the performance of the business in the remaining 5 dimensions.
- Government funding agencies should focus more on performance relating to social development rather than making onerous demands in financing.
- The investor is positively influenced during business plan appraisal if the entrepreneur shows that he will be successful in other dimensions of performance.

5.5 *The role of BEE on investor decision making*

Tables 15 and 16 show the content analysis results of the role of BEE on investor decision making. While this master code was only drilled down to sub code level for most of the emerging issues, the sub code associated with performance was further drilled down to third level codes associated with the 6 dimensions of performance identified in the literature review.

BE-ISU Investor sense of urgency	**Times Mentioned**
BEE is an overriding factor in investment appraisal i.e. there is a minimum requirement else the investor will not invest	4
BEE is only required by the investor depending on the context otherwise BEE has no effect on investment appraisal	4
BEE positively influences the investor to allocate capital providing the business fundamentals are in place	3
BEE is seen as costly and a deterrent to proper investment in a venture i.e. it adds another permutation to the fund's mandate that is not easily found	1
BE-IRB Investor requirements for BEE	**Times Mentioned**
The applicant for finance must have a BEE plan	5
The applicant for finance must show that the BEE component will actively participate in the business i.e. not just shareholding	2
The applicant for finance must do a scenario plan detailing the effects of BEE on company performance	2
No requirements or considerations on BEE	2
The investor, by virtue of his own BEE status assists in bringing the BEE component to an investment	1
BE-CTP Changes to planning process	**Times Mentioned**
The process of planning is not changed	12

BE-CTC Changes to strategic content of business plan	Times Mentioned
Environment of business strategy	6
Market and customer orientation strategy	4
Human resources strategy	2
Strategic content is not changed	2
Financial plan	1

Table 15: Frequency count of issues pertaining to the role of BEE on investor decision making

It is seen from Table 15 that an almost equivocal orientation to the need for BEE is prevalent among investors. While 33% of investors said that BEE inclusion in a QSE seeking finance is imperative and overrides further decision making criteria as in the case of pre selection or screening, 33% also said that BEE is only context dependent otherwise it has no effect on the investor's decision making. Furthermore, 25% of the respondents said that the presence of BEE in QSE structure positively influences the investor especially when other qualifying criteria (like business plan valuation) are marginal. However, the business plan fundamentals need to be in place. 1 respondent mentioned that BEE is a cost implication for the venture seeking finance and that the need for BEE actually disrupts the fund's mandate as it makes the inclusive criteria for selection prohibitively difficult. The value that an entrepreneur may take out of this finding is that if BEE is included in the business plan of the QSE that seeks finance, chances are that the QSE would not be worse off than if it had not taken BEE into account. However, if BEE is not included there is a higher probability of not meeting the minimum requirements of the investor's mandate. In this case, the QSE will be eliminated at the screening round of the investment appraisal.

Most investors (42%) require a BEE plan to be in place when finance is sought. Therefore, it is not expected that the applicant should already be BEE compliant.

All the respondents unanimously said that the process of planning is not changed by the inclusion of BEE into the plan that is submitted when finance is sought. In light of this response, all the process steps uncovered in this research will still apply.

Most respondents believed that the strategic content of the business plan will be changed when BEE is considered, mostly in the environment of business strategy and the market and customer orientation strategies.

	BE-CPD-FIN Financial	BE-CPD-HRP Human resources	BE-CPD-FLE Flexibility	BE-CPD-QUA Quality	BE-CPD-CUS Customer satisfaction	BE-CPD-TIM time
DETERRENTS TO PERFORMANCE	Value is destroyed if an entrepreneur takes on a BEE partner just for the sake of being accredited as BEE. If finance was awarded purely on BEE credentials, the financier will be killing the economy, the entrepreneur and their own balance sheets - 2	:Lack of skills inhibit the number of investments that investors make due to the amount of time they spend mentoring less skilled entrepreneurs - 2 The chances of the entrepreneur exiting the investment when a new opportunity becomes available is a risk to the investor.	BEE is not a reality for small businesses. It depends on what the entrepreneur wants to do first.	The investee may fall short of achieving the requirements of the balanced scorecard or charter requirements		
IMPROVEMENTS TO PERFROMANCE	There are financial benefits to being BEE-accredited such as lower loan rates, lower expected IRR from investors and the higher valuations that investors would place on the venture going forward - 3	Partnerships are encouraged. This reduces the risk to individual entrepreneurs sharing in the venture.	Since BEE is broad-based, strategies regarding procurement, skills development, staffing and ownership are flexible. This could yield greater performance of the venture over time.		The ability to meet sales forecasts are improved with BEE participation as this is applicable to a larger market in South Africa.	

Table 16: Frequency count of performance issues relating to the role of BEE in investor decision making

Table 16 shows the findings of deterrents and improvements that BEE brings to performance in a QSE, as perceived by investors. While this list may not be exhaustive, these were the results, categorized according to the performance dimensions uncovered in the literature review based on the statements made by the respondents. An almost equal number of deterrents and improvements to performance are seen, so it cannot be said whether BEE is beneficial to performance or not.

Most of the statements made were related to the financial dimension of performance. This is expected, considering the findings of this study relating to investors' expectations of the future performance of QSE's once investors have allocated capital (See 5.4). Most respondents to this dimension said that BEE inclusion in a business plan is rewarding to the venture in that the investor could lower his expected internal rate of return, lower the interest rate charged for advancement of a loan or possibly pay a higher value to the entrepreneur for a stake in that business.

Congruent to the finding that BEE may also not be an overriding factor in investment appraisals, 2 respondents mentioned that it could be detrimental to the economy, the entrepreneur and the investor if finance was awarded purely on BEE credentials. Therefore, some other qualifying criteria (such as the entrepreneur characteristics, market attractiveness and product offering, see 5.3.3) would take precedence over the BEE criterion.

Respondents also stated concerns over the performance of the BEE venture in the human resources dimension. With their perception of lower skills levels among BEE entrepreneurs, they fear that the time spent on micro managing BEE investments would be vast enough to warrant a lower number of investments at particular points in time. This could yield lower profits to the investor, depending on the BEE venture performance. 1 respondent also mentioned that BEE entrepreneurs may not be loyal to their early stage enterprises and may leave to pursue other opportunities as they arise. The upside of BEE inclusion is that it affords the opportunity to individual entrepreneurs to share risk by the formation of partnerships.

Finally, BEE impacts the flexibility, customer satisfaction and quality dimensions of performance to a little degree with both the pros and cons. It is seen from the results that the time dimension is unaffected by the presence or absence of BEE in a QSE's structure

5.6 Summary

From the evaluation and discussion of the results it is apparent that process, strategic content, performance and BEE issues influence the propensity of an investor to allocate capital to an early growth stage qualifying small enterprise.

The results of the study indicated that process formality in business planning among early growth stage QSE's is relevant and an integral part of being in business. Impediments to process formality are the limited capabilities, skills and resources of an early stage venture as well as the individuality of the entrepreneur such as his motivation, attitude and ability to influence the members of the company. The benefits associated with process formality are that it forces the entrepreneur to think and take a long term view of the future direction of the company and results in improved performance. The results also show that process formality positively influences the investor in his decision making to allocate capital.

An early growth stage QSE is expected to focus on the financial and operational requirements of the venture when doing formal business planning. Primarily documentation with monitoring and control is what an investor desires. This formality in the planning process is applicable to all the stages of a small business' lifecycle but the extent with which it is done tends to increase with maturity.

The steps associated with the formal process of planning among QSE's in the early growth stage is thinking through a plan, testing the concepts, documentation, monitoring and evaluation and controlling the business with feedback to stakeholders.

There is a general lack of formal business planning in the local industry. Most existing planners are categorized as informal. Drivers of the propensity to do formal planning are the entrepreneur's individuality and the power of investor involvement.

An equivocal response to the relevance of strategic content is seen in the findings. While some respondents found it very relevant, others found it relevant only to a limited extent. The impediments to sophistication in strategic content are the immediate focus or priorities of the entrepreneur, the individuality of the entrepreneur, the lack of experience and skills and the stability of the business. The impact of strategic content on investor decision making is inconclusive. The benefits of strategic content sophistication are applicable to the entrepreneur rather than the investor. Investors only get involved from the perspective of mentorship.

An early growth stage QSE need only focus on 2 strategic content areas viz. entrepreneur characteristics and operational management. The sophistication required is a simplistic strategy and is limited to financial, operational and market plans and the product offering. Strategic content is applicable to all the stages of a business' lifecycle but a greater deal of relevance is attached to the later stages. The level of sophistication in strategic content tends to increase with small firm maturity.

All respondents expect a full marketing plan as a subset of the business plan. Other focal areas are the entrepreneur's characteristics, the product offering and financial information, which should be covered in detail. Other content elements should be covered only briefly. Vision and mission statements were seen as unnecessary. In general, investors do not expect high levels of sophistication in strategic content.

QSE entrepreneurs in the early growth stage generally do not involve themselves with strategic content in a business plan. They range from being crisis managers to budget planners.

Investors expect performance form early growth stage QSE's primarily is the financial dimension. The biggest measure of performance is the ability of the QSE to meet milestones and to adhere to the original plan. Investors believe that all other performance dimensions are actually subsets of the financial performance dimension. Investors also support government funding agencies driving the other performance dimensions and being less onerous with their demands on financial performance form the investee.

Two schools of thought characterize the role of BEE on investor decision making. On the one hand, some investors will not consider a proposal if the BEE component of the QSE structure is not addressed. This could possibly be a screening criterion for the investor. On the other hand, some investors only believe that BEE is context dependent, otherwise it has no effect on their decision making.

Most investors require a BEE plan as the minimum requirement for screening purposes or preliminary evaluation. All respondents believe that the process of planning is not changed. However, strategic content will change in the environment of business strategy as well as the market and customer orientation strategy.

It is not clear from the results whether investors believe that BEE is beneficial or not. However, most changes to performance are expected in the financial dimension either by added cost thereby destroying value or by more favourable expectations from the investor with respect to internal rate of return or loan interest rates. Investors may also valuate a company on a higher level by considering the BEE component of the venture.

6 CONCLUSIONS

6.1 Introduction

In this final chapter, the results are tested against the research questions that were formulated going into the study. Tentative solutions presented in the literature review are tested against the findings of Chapter 5. These findings are followed by recommendations to stakeholders involved in early growth stage qualifying small enterprises that seek or provide finance. Whilst endeavoring to contrast the solutions in the literature review as solutions to the research problem with the major findings of this research, recommendations are predominantly based on the insights gained from the discussion of the results. Finally, suggestions are made for further research in this area of investor expectations of small business planning.

6.2 Strength of Support for Research Question 1

The major finding in Chapter 5 regarding the relevance of process formality to small business planning (particularly to qualifying small enterprises in the early growth stage) is that process formality in ongoing business is very relevant and is an integral part of being in business. In other words, investors expect early growth stage qualifying small enterprises to do formal planning with a required level of formality. This finding supports the statement made by Mazzarol (2000) that banks and enterprise development agencies view formal planning as vital if funding is required. Taylor (2001) also supports this finding. This finding does not support the research findings of Kudla (1980), Mintzberg (1994), Robinson & Pearce (1984), Baechler (1996) and Honig' & Karlsson (2004), where they said that formality in business planning is not necessary.

The impediments to process formality are limited capabilities, resources and skills, the individuality of the small business entrepreneur and the operational involvement of the entrepreneur in the business. These findings are not supported in the literature review. This is probably due to the fact that previous research has indicated other impediments to process formality such as institutional variables such as coercion and mimetic forces (Honig' & Karlsson, 2004) and lack of control over extraneous, independent variables (Kudla, 1980).

The findings of this research show that the main benefit of process formality in small business planning is that it forces the entrepreneur to think about the business. This finding is supported by Shrader *et al* (1989) and Herter (1995). Another benefit of process formality is that it allows the entrepreneur to take a longer term view of the company. This is supported by Shrader *et al* (1989). Perhaps the third benefit of formal planning being associated with enhanced financial performance such as cost control and profitability improvements is most supported by the literature (Ansoff, 1965; Thune & House, 1970; Herold, 1972; Jones, 1982; Robinson & Pearce, 1984; Robinson *et al*, 1984; Sexton & Van Auken, 1985; Shrader *et* al, 1989; Romano & Ratnatunga, 1994; Herter, 1995; Osbourne, 1995; Castrogiovanni, 1996; Berman *et* al, 1997; Mazzarol, 2000; Perry, 2001; Upton *et al*, 2001 and French *et al*, 2004).

The finding that process formality positively influences the investor's decision making is supported by Mazzarol (2000) and Taylor (2001).

With regard to the stakeholder involvement in process formality, it was found that investors expect the entrepreneur to do the business plan. This is supported by Gibb & Scott (1985). Literature supporting the level of investor involvement in process formality in small business planning has not been thoroughly researched and was an emerging issue in this research.

It was found that the focus area of an early growth stage qualifying small enterprise is expected by investors to be financial considerations and operational management. This finding is not supported in the literature review. Investors expect a high level of formality in small business planning. This finding is extensively supported in the literature review (Ansoff, 1965; Thune & House, 1970; Herold, 1972; Jones, 1982;

Robinson & Pearce, 1984; Robinson *et al*, 1984; Sexton & Van Auken, 1985; Shrader *et* al, 1989; Romano & Ratnatunga, 1994; Herter, 1995; Osbourne, 1995; Castrogiovanni, 1996; Berman *et* al, 1997; Mazzarol, 2000; Perry, 2001; Upton *et al*, 2001 and French *et al*, 2004).

Investors believe that process formality is applicable to all the stages of a business' lifecycle. The literature review is inconsistent with this finding and therefore support for this finding is inconclusive (Ansoff, 1965; Robinson *et* al, 1984 and Pearce *et al*, 1987 and Romano & Ratnatunga, 1994).

The extent of formality increases with maturity of the small business. This finding is strongly supported in the literature review (Robinson & Pearce, 1984; Risseeuw & Masurel, 1994; Glen & Weerawardena, 1996; Berman, Gordon & Sussman, 1997 and Gibson & Cassar, 2002).

The major finding regarding process steps is that:

- Entrepreneurs need to think through a plan
- Entrepreneurs need to test the idea in a practical setting
- Entrepreneurs need to document the plan
- Entrepreneurs need to monitor the business performance and evaluate deviations from the plan
- Entrepreneurs need to control the business and give feedback to stakeholders

Except for the testing of ideas which emerged as an evolutionary issue, all these process steps are supported in the literature review (Linder & Vick, 1984; Shrader *et al*, 1989; Mazzarol, 2000; Perry, 2001; Upton *et al,* 2001; French *et al*, 2004 and Wijewardena *et al*, 2004).

The finding that there is a general lack of ongoing process formality among small businesses is strongly supported in the literature review (Robinson & Pearce, 1984; Unni, 1984; Gibb & Scott, 1985; *Managing Office Technology*, 1994; Risseeuw & Masurel, 1994; Osbourne, 1995; Glen & Weerawardena, 1996; Berman *et al*, 1997; Perry, 2001 and Gibson & Cassar, 2002)

The results of this research show that the drivers of the propensity to formally plan include the power of the stakeholders, the departure point, priorities of the entrepreneur and planning infrastructure such as skills, processes and systems. None of these drivers are supported in the literature review.

Investors' experience shows that planners in the local industry can be classified as informal planners. This is consistent with French *et al* (2004).

6.3 Strength of support for Research Question 2

Investors don't place much emphasis on strategic content of a business plan compared to the process of planning. The results show that while strategic content is seen as relevant to an early growth stage QSE by all investors, half of the responses thought that this relevance was only to a limited extent. This equivocal relevance echoes Kargar's (1996) findings. A lack of focus on strategic content, business stability, entrepreneur individuality and lack of management skill impedes sophistication in strategy. Further support for this inconsistency in relevance is seen in the works of Grinyer & Norburn, 1975; Kallman & Shapiro, 1978; Robinson *et al*, 1986; Cragg & King, 1988; Watts & Ormsby, 1990; Matthews & Scott, 1995 and French *et al*, 2004. The finding is also not in support of Karger & Malik, 1975; Wood & La Forge, 1979; Sapp & Seiler, 1981; Bracker & Pearson, 1986; Miller & TouLouse, 1986; Segev, 1987; Bracker *et al*, 1988; Robinson & Pearce, 1988; Hillidge, 1990; Branch, 1991; Brokaw, 1992; Knight, 1993; Schwenk & Shrader, 1993; Perry, 2001; Upton *et al*, 2001 and Wijewardena *et al*, 2004.

The benefits in strategic content sophistication are seen by investors to be beneficial more to the entrepreneur than to the investor. By doing strategic planning the entrepreneur gains skills, clarifies direction in the achievement of goals and offers management flexibility. Support for these benefits to the entrepreneur are absent from the literature review. The benefits of strategic content to the entrepreneur are emerging issues from this research.

The investor gets involved in the small business strategic planning only to a limited extent in that he serves as a mentor or overseer on the level of understanding of the entrepreneur. He also can serve to allow the entrepreneur to test his ideas against the investor's knowledge. This involvement of the stakeholder in small business planning is not covered in the literature review.

The focus area for the QSE entrepreneur in strategic content sophistication is in entrepreneur characteristics. Taylor (2001) strongly echoes this finding as being the most influential criterion in investor decision making. This is further supported in the literature review by Rice (1983); Gibb & Scott (1985), Olson & Bokor (1995) and French *et al* (2004).

Investors also expect operational involvement of the entrepreneur as a focal point in the content of the business plan submitted when finance is applied for. This focus area is congruent to the impediments for strategic sophistication and strengthens the inconsistency with respect to investors' expectations of strategic content. This focus area is seen as evolutionary in the research problem and is absent from the literature review.

Investors expect early growth stage QSE's to focus on a simple strategy in the business plan but with detailed descriptions of markets, operations and the product offering with a comprehensive financial plan. This finding is supported in the literature review (Perry, 2001 and French *et al*, 2004). Support underpinning the product offering is absent in the literature review.

The results show that strategic content sophistication is applicable to all stages of a business lifecycle and that it is more relevant to the later stages as the business becomes more mature where higher levels of sophistication are expected by investors. This finding is supported by Robinson & Pearce (1984).

The strategic content presented in a business plan for small enterprise should include detailed coverage of markets, the entrepreneur, the product offering and financials. This is consistent with the finding on the focus areas for a QSE. Support in the literature review is seen in the works of Rice (1983); Gibb & Scott (1985), Olson & Bokor (1995); Perry, 2001 and French *et al* (2004). Brief content elements pertaining to the environment of business, human resources and competitors need to also be presented. These other content elements are supported in the literature review by Kallman & Shapiro, 1978; Ackelsberg & Arlow, 1985; Robinson *et al*, 1986; Watts & Ormsby, 1990; Matthews & Scott, 1995 and Perry, 2001.

The experience among investors is that there is generally no sophistication among local planners with respect to strategic content. This finding is supported by Berman *et al*, 1997. Furthermore, it was found that current planners ranged from crisis management to budget planners.

6.4 Strength of support for Research Question 3

Investors expect performance to be measured by the level of adherence to the original business plan which governed the operation of a venture. This is not seen as a performance dimension but rather a measurement indicator of the various dimensions of performance. Literature supporting this finding is absent in the literature review. This finding is also an emerging issue in this research.

Investors expect a financed venture to primarily perform in the financial dimension. This is consistent with all studies in planning-performance relationships presented in the literature review (Ansoff, 1965; Thune & House, 1970; Herold, 1972; Jones, 1982;

Robinson & Pearce, 1984; Robinson *et al*, 1984; Sexton & Van Auken, 1985; Shrader *et* al, 1989; Romano & Ratnatunga, 1994; Herter, 1995; Osbourne, 1995; Castrogiovanni, 1996; Berman *et* al, 1997; Mazzarol, 2000; Perry, 2001; Upton *et al*, 2001 and French *et al*, 2004).

Support for the financial dimension is also presented in the literature review (Globerson, 1985; Dixon, Nanni & Vollman, 1990; Lynch & Cross, 1991; Neely *et al*, 1996; Neely *et al*, 1997 and Hudson *et al*, 2001). However, the literature presented here does not support the finding that the performance dimensions of a small business are hierarchical i.e. the financial dimension is driven by all the other five dimensions of performance.

6.5 Strength of support for Research Question 4

The findings on the role that BEE plays in investor decision making are equivocal. Some investors view BEE fulfilment as overriding in investment appraisal i.e. taking precedence over all other criteria, while some investors are passive about its relevance and view it as context dependent. As BEE is relatively new in South Africa, little research is available in support of this finding and the results of this study are therefore seen as emerging / evolutionary.

Investors expect early growth stage QSE's that seek finance to have a BEE plan. The process of planning is not changed when BEE is taken into account however the content elements of a business plan viz. environment of business and market / customer orientation strategies will change and need to account for the inclusion of BEE. The literature review supports this finding (BEE Com, 2001).

Changes to the performance expectations of small businesses by investors will change mostly in the financial dimension and human resource dimensions. These are underpinned by both disadvantages (deterrents to performance) and advantages (performance improvements). The effect that BEE has on performance is inconclusive. Support is offered for the effect of BEE on the human resources dimension (Government Gazette, 2004).

6.6 Recommendations to investors and entrepreneurs

With the government's focus on growing the small business sector in South Africa, and the general lack of capital to put effect to this by entrepreneurs, both investors and entrepreneurs need to find the common ground, so that proper investment is made in viable, sustainable and economically feasible small businesses. It is imperative therefore that entrepreneurs are kept appraised of investor expectations regarding their business planning behaviours, especially considering that the business plan is an important criterion whereupon the investment decision is based. If an alignment of entrepreneur planning behaviour with investor expectations is achieved, investment and growth of small businesses will be successful.

Regarding ongoing process formality issues, investors perceive formality as extremely relevant to small businesses. However, their experience is that there is a general lack of formality in business planning among small business entrepreneurs, even though formality positively influences their propensity to award finance. Entrepreneurs, both existing and potential, need to digest this as being a reason for the difficulties experienced in attracting finance. It is recommended that all entrepreneurs overcome the impediments to planning formality and engage therein to be viewed as credible in they eyes of the investor. This research provides a guideline to the steps involved in the process of formal planning. Entrepreneurs should endeavour to go through these steps so that experience in formal planning is attained. This experience will augur well in attracting finance at a later stage. Potential entrepreneurs should also endeavour to learn the process of formal planning either through corporate jobs or private practice. Skills and experience can only be gleaned by the entrepreneur changing negative attitudes towards planning formality and focusing on the benefits that it offers. Moreover, experience is attained by the entrepreneur personally applying himself to the formal process of planning.

Investors perceive that impediments to formality in planning include a lack of resources and skills. This can be overcome by the entrepreneur himself becoming skilled and recruiting capable staff that will drive process formality proactively. Investors offer themselves as mentors and entrepreneurs need to take advantage of this by willingly succumbing to the experience and skill of the investor.

Given the results of this research, the entrepreneur should focus on time and financial management. He should devote his time to formality in financial and operational management. It is recommended that thought is given to the plan and outcomes expected in the planning process and that concepts are tested in a practical environment. Documentation should be kept where decisions have been taken or actions carried out. The entrepreneur should also keep communication lines open with the investor and employees regarding the business performance. In this way, the entrepreneur will be able to control his business while the key stakeholders of the business are kept appraised of developments.

It is imperative that the entrepreneur continues to develop his skills levels with respect to the formality required in business planning as an increasing level of formality will be expected from him by the investor as the small business grows to maturity.

The results of this study show that investors don't expect high levels of sophistication in a business plan submitted by an early growth stage QSE that applies for finance. However, investors have cited a general lack of strategic content sophistication in business plans in the local market. Given this revelation, entrepreneurs need to focus on themselves as being the determinant of whether funding will be allocated to their businesses or not. Drawing on the results of this study, entrepreneurs should endeavour to upgrade their skills levels, reorganize their personal goals and understand their businesses and the markets within which their businesses operate. They should endeavour to practice strategic content sophistication and general business plan methodology. They should also use the opportunity that investors offer them for testing their ideas and gaining experience. In this way, they attain skills and experience as well as network with the investor.

Existing entrepreneurs should pay attention to their own credibility in the eyes of the investor. This can be achieved by setting personal realistic goals and mapping a way of achieving them. They should continuously strive to better their skills by learning business fundamentals pertaining to their businesses. As much as this may be learnt over time, entrepreneurs should fast track their own abilities by proactive learning such as personal study and application to their own businesses.

Existing entrepreneurs should also focus on fully understanding the drivers of their own businesses. While operational management is fully needed, underlying drivers and industry trends governing their business dynamics should be grasped. They should be able to articulate their business models with strategic insight. Such insight may be attained by fully understanding their product offering and markets. Having sound financial management acumen will augur well in attracting finance in the future.

Investors' experience indicates a general lack of sophisticated strategic planning among small businesses. Even though this is not their requirement, entrepreneurs are the ones that could reap the benefits of strategic planning. Coupled with self development and experience, entrepreneurs should have a mind shift from crisis and budget planning to longer range and sophisticated strategic planning. This will cultivate better entrepreneurial skills that add credibility to the entrepreneur when finance is sought.

Investors perceive adherence to the original plan as being the measure of performance of an early growth stage QSE. In order to lend oneself as favourable in the eyes of the investor, the entrepreneur should correlate his commitment to operational focus with that of financial performance. Even if financial performance is poor, as is expected of an early stage investment, the entrepreneur should be able to articulate how adhering to the plan will eventually culminate in superior performance.

Government funding agencies should place less onerous demands on financing of small businesses, considering the government's need to fast track social upliftment via growth of the small business sector. These institutions should place a greater emphasis on the achievements in the other dimensions of performance rather than purely financial considerations. If this is done, there could be a flourishing of not-for-profit organizations that still provide jobs, allow for skills transfer and alleviate poverty whilst maintaining the entrepreneurial approach to economic growth via small businesses.

Even though investors expect financial performance of an investee venture, the entrepreneur loses nothing if he spends the time analysing how the venture would perform in the dimensions of time, quality, human resources, customer satisfaction and flexibility. In fact, the investor is positively influenced to allocate funding if the entrepreneur is able to prove performance in the other dimensions of performance. What is rewarding from this exercise is the fact that the investor's decision making is positively influenced in cases where the appraisal is marginal based on financial considerations. It is recommended that the entrepreneur take a holistic view of the performance of his business when an application for finance from an investor is made.

Many investors consider BEE to be an overriding factor in their decision making to allocate finance to a qualifying small enterprise in the early growth stage. On the other hand, there are also an almost equal number of investors that do not consider BEE to affect their decision making but is dependent on the context in which the entrepreneur plans to operate his business. A significant number of investors also believe that the inclusion of BEE aspects into a business plan when finance is sought positively influences their propensity to allocate capital on condition that the fundamentals of the business plan are sound. The entrepreneur may draw from this knowledge and present a best-case business plan i.e. include the BEE aspects into the plan. If it is an overriding criterion for the investor targeted, then the entrepreneur would have met the minimum requirements. If it positively influences the investor, then the entrepreneur's chances of securing funding are elevated. Even if the inclusion has no impact on the investor, the entrepreneur stands nothing to lose. In fact, he would have gained from the experience. It is recognised, however that including BEE into a plan might come at a cost. If this is prohibitively expensive to the entrepreneur, then the entrepreneur should at least draw up a BEE plan with milestones for becoming compliant.

The inclusion of BEE does not change the process of planning. Similar process steps are involved in formal planning, even when the need for becoming accredited as BEE compliant is taken into account. Furthermore, the entrepreneur must include his consideration of the BEE aspects into the environment-of-business strategies and how BEE will benefit his market and customers. Finally, the entrepreneur must show how his financial plan is impacted by the inclusion of BEE aspects into the plan whether these are advantages or disadvantages. The human resources dimension of performance will be expected to change with the inclusion of BEE aspects. The entrepreneur needs to show these changes in the human resources strategy or staffing forecast of his business plan.

6.7 Areas for further research

The research presented in this report offers a broad view of small business planning and investor expectations pertaining thereto. From this research, a number of areas for further research have stemmed:

6.7.1 <u>A quantitative study on investor expectations of business planning and performance in qualifying small enterprises</u>

During this research, it became apparent that investors have varying perceptions and expectations of the process, content and performance issues in business planning. A quantitative replication of this study will be useful in confirming the validity and reliability of the results presented in this report. A conjoint analysis of different scenarios may be used to reduce the equivocal nature of responses that was evident in this research. It will also provide a more meaningful collective representation of the strength of support for any issue that is researched. While content analysis is useful in determining emerging issues via qualitative research, future research may draw on the emerging issues presented in this report to analyse the significance of each issue on a collective level using conjoint analysis.

6.7.2 A Delphi technique study on investor expectations of business planning and performance in qualifying small enterprises

Due to this research being exploratory and pioneering research on the role of business planning on investor decision making in South Africa, a number of emerging issues were not supported by the literature review. A Delphi technique study would prove most useful to unearth further business planning factors that impact decision making among investors. While the study may prompt responses via predetermined factors, investors would have the chance to state their support of factors that are not included in the predetermined list to further explore the business planning factors influencing the decision making of an investor during investment appraisals.

6.7.3 An evaluation of the perceptions of investors and entrepreneurs regarding the relationship between business planning and performance

A quantitative study on the issues emphasised in this research would prove relevant, where performance of the investee venture is the thread underpinning investment. A correspondence analysis of the alignment between the perceptions of investors and entrepreneurs seeking funding would provide an understanding of the impediments to investment and funding. This would constitute an extension of this explorative research and would enable both investors and entrepreneurs to be benchmarked against the critical success factors of investment activity. The research would also provide the investor and entrepreneur markets with a comparative tool and assist in identifying areas of misalignment to inform future investment application strategies and decision making criteria.

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APPENDIX A – TELEPHONE PROTOCOL

The purpose of the telephone call is to set up an interview with the respondent.

Requesting referral from the first line of contact

Hello, you are speaking to Deano Govender. I am an MBA student at Wits Business School. I am conducting research among financiers of Qualifying Small Enterprises in the early growth stage. It explores their expectations regarding the process and content issues of business planning among these entities and their expected future performance that affect their propensity to allocate capital. The research is based on in-depth interviews with key players and experts in this field. Could you please refer me to the expert in the field of business planning assessment at ……………………….. I would very much welcome the opportunity to discuss these issues with him/her. Is there anyone you would recommend I speak to? [*If yes, get details. If no, thank and close*]

Speaking to the respondent

Hello, Mr / Ms ………………………….., my name is Deano Govender. I am an MBA student at Wits Business School and I am conducting research on early growth stage QSE business planning and financier expectations in when deciding to allocate finance. To this end, Mr / Ms …………. Has recommended that I speak to you about the possibility of you contributing to the research given your expertise in this area. The research that I am conducting explores the expectations of financiers regarding the business planning process and content issues among QSE's in the early growth stage and also expectations of the future performance of these QSE's if finance is to be allocated. The research is based on in-depth interviews with key players in this field.

I would very much welcome the opportunity to discuss these issues with you. The discussion will take about an hour of your time. You are guaranteed anonymity and confidentiality. Neither your name nor company will be linked to any statements or comments made.

I think that the results of this research will make a valuable contribution, considering that no academic research currently exists on business planning issues that influence the propensity of the financier to allocate capita in the local market. For your participation in this research, I will forward you a copy of the research findings.

Based on this, would you be interested in participating? [*If yes, schedule date of interview, time and venue and arrange for parking. Also request a map, if necessary. If no, explore reasons for objecting and if necessary, request further referrals*]

APPENDIX B – SAMPLE INTERVIEW PROTOCOL

<u>The Relationship between SME Business Planning Aspects and Performance Criteria</u>

Respondent Details

Name:

Designation in Company:

Organization:

Contact Number:

E-mail Address:

Date:

Time:

Duration of Interview:

Opening statement to the respondent

Thank you for agreeing to participate in this study. The interview will not last longer than 1 hour. I guarantee you confidentiality and that neither your name nor company will be published in the research report.

This research study aims to explore the expectations of financiers regarding business planning process and content issues when deciding to allocate finance to early growth stage QSE's.

The research focuses on the process and content aspects of small business planning from a literature survey. Each of these areas encompasses a number of elements that are integral to small business planning and are paramount to the performance of the small business. What I am investigating are the key process steps and content elements that financiers expect in business planning which positively influence their propensity to allocate capital.

Key questions

QUESTION 1:

Please describe the expectations of [*name of organization*] with respect to the level of formality required in ongoing business planning by an early growth stage QSE that seeks finance.

PROBE:

- How relevant is formality in ongoing business planning among early growth stage QSE's in contributing to its success in securing funding?
- Does this also apply to businesses in other stages of development?
- What are the key process steps involved in 'formalising the plan' that will lead to successfully securing finance?

  Prompt: Thinking through a plan, documenting a plan, instituting a monitoring and evaluation mechanism and feedback and control.
- Do you believe that there is a general behaviour among early growth stage QSE's to do formal planning, using these process steps on an ongoing basis?
- In your experience, to what extent do current early growth stage QSEs that do formal business planning undertake the steps that you have spoken about?

  Prompt: Categorisation of current SME's as non-planners, informal planners, formal planners or sophisticated planners.

QUESTION 2:

Please describe the expectations of [*name of organization*] with respect to the level of sophistication in strategy content required of a business plan by an early growth stage QSE seeking funding.

PROBE:

- How relevant is strategic content in early growth stage QSE business planning in contributing to the success in securing funding?
- Does this also apply to enterprises in other stages of development?

- What are the major content elements that need to be presented in a business plan that will lead to successfully securing finance?
  Prompt: Vision and Mission, Analysis, forecasting, objectives and strategies in functional areas such as finance, staffing, competitor orientation, market orientation, customer orientation, environment-of-business and latent abilities and personal goals
- Do you believe that there is a general behaviour among SME's to do strategic planning that culminates in these content elements on an ongoing basis?
- In your experience, to what extent do current SME's that do strategic planning undertake to complete all these strategic plans that you have spoken about on an ongoing basis
  Prompt: Where do SME's in the local market fall with respect to sophistication in strategic content i.e. crisis management planning, budget planning, long range planning or strategic planning?

QUESTION 3:

In what areas are you expecting the financed early growth stage QSE to perform so that you know you have made the right investment?

Prompt: Six Dimensions of Performance namely, time, quality, finance, flexibility, customer satisfaction and human resources.

QUESTION 4:

Black Economic Empowerment in South Africa is a factor that heavily impacts all business stakeholders. How does BEE recalibrate your decision making regarding the requirements of business plans presented by early growth QSEs in your decision making to allocate finance?

Prompt: BEE changes the performance dimensions expected, BEE changes the environment-of-business strategy content in business planning, How are the process steps changed?

QUESTION 5:

Having covered what we have, do you believe that there are any other aspects of business planning among SME's outstanding that we have not mentioned?

Closing statement

Thank you for your time and for participating in this research study. Your input has been most valuable and will indeed contribute to the success of this research. As soon as the results are available, I will submit a copy to you for your perusal and information. Please do feel free to contact me should you have any further comments and queries. Once again, thank you and goodbye.

Interviewer's comments

This will be a separate page taken into the interview for taking notes to assist in compiling a transcript from the recording of the interview. Records of non-verbal behaviour will also be recorded here. These notes will be used to help clarify the intended meaning of the respondent's comments to the researcher.

Reflective notes

This will be a separate page taken into the interview to ponder points raised by the respondent and will serve as a parking lot for ideas that evolve from the discussion to allow the research problem to evolve as new information becomes available. Information will be input into the following tables to ease analysis of the relationship between SME planning activities and performance dimensions:

APPENDIX C – LIST OF CODES USED AND DEFINITIONS

Type of Code	Code	Definition
Master Code	PF	Process Formality
Sub Code	PF-R	Process Formality – Relevance in small business planning
Third Level Code	PF-R-ROF	Process Formality – Relevance in small business planning – Relevance of Formality
Third Level Code	PF-R-ITF	Process Formality – Relevance in small business planning – Impediments to formality
Third Level Code	PF-R-BOF	Process Formality – Relevance in small business planning – Benefits of Formality
Third Level Code	PF-R-IID	Process Formality – Relevance in small business planning – Impact on Investor Decision Making
Third Level Code	PF-R-SIP	Process Formality – Relevance in small business planning – stakeholder involvement in formal planning
Sub code	PF-A	Process Formality – Applicability to the stage of business
Third Level Code	PF-A-FAQ	Process Formality – Applicability to the stage of business – Focus Areas for an early growth stage QSE
Third Level Code	PF-A-LRQ	Process Formality – Applicability to the stage of business – Level of formality required for an early growth stage QSE
Third Level Code	PF-A-OSB	Process Formality – Applicability to the stage of business – Applicability to stages of business other than early growth stage QSE
Third Level Code	PF-A-EOS	Process Formality – Applicability to the stage of business – Extent of formality expected in stages of business other than early growth stage QSE
Sub Code	PF-S	Steps in the formal planning process
Third Level Code	PF-S-TTP	Process Formality – Steps in the formal planning process – Think through the plan

Type of Code	Code	Definition
Third Level Code	PF-S-DOP	Process Formality – Steps in the formal planning process – documentation of the plan
Third Level Code	PF-S-MAE	Process Formality – Steps in the formal planning process – Monitoring and Evaluation relative to the plan
Third Level Code	PF-S-FAC	Process Formality – Steps in the formal planning process – Feedback and Control relative to the plan
Third Level Code	PF-S-OSM	Process Formality – Steps in the formal planning process – Other Steps not mentioned in literature review
Sub Code	PF-E	Process Formality – Extent of formal planning experienced by investors
Third Level Code	PF-E-GCE	Process Formality – Extent of formal planning experienced by investors – general current experience of small business planning behaviour
Third Level Code	PF-E-DOP	Process Formality – Extent of formal planning experienced by investors – drivers of the propensity of small business entrepreneurs to do formal planning
Third Level Code	PF-E-COP	Process Formality – Extent of formal planning experienced by investors – categories of planners currently experienced
Third Level Code	PF-E-OEM	Process Formality – Extent of formal planning experienced by investors – other extent topics uncovered that have not elsewhere been mentioned
Master Code	SC	Strategic Content
Sub Code	SC-R	Strategic Content – Relevance in small business planning
Third Level Code	SC-R-RSC	Strategic Content – Relevance in small business planning – Relevance of strategic content to an early growth stage QSE
Third Level Code	SC-R-ITS	Strategic Content – Relevance in small business planning – Impediments to sophistication in strategy

Type of Code	Code	Definition
Third Level Code	SC-R-IID	Strategic Content – Relevance in small business planning – Impact on investor decision making
Third Level Code	SC-R-BSC	Strategic Content – Relevance in small business planning – Benefits of strategic content
Third Level Code	SC-R-SIS	Strategic Content – Relevance in small business planning – Stakeholder involvement in strategy
Sub Code	SC-A	Strategic Content – Applicability of strategic content sophistication to the stage of business
Third Level Code	SC-A-FAQ	Strategic Content – Applicability of strategic content sophistication to the stage of business – Focus area for an early growth stage QSE
Third Level Code	SC-A-SRQ	Strategic Content – Applicability of strategic content sophistication to the stage of business – Sophistication required for an early growth stage QSE
Third Level Code	SC-A-OSB	Strategic Content – Applicability of strategic content sophistication to the stage of business – Applicability to stages of business other than early growth stage QSE
Third Level Code	SC-A-SOS	Strategic Content – Applicability of strategic content sophistication to the stage of business – The extent of sophistication expected in stages of business other than early growth stage QSE
Sub Code	SC-C	Strategic Content – Content elements in a small business plan
Third Level Code	SC-C-EOB	Strategic Content – Content elements in a small business plan – Environment of business analysis
Third Level Code	SC-C-HRS	Strategic Content – Content elements in a small business plan – Human resources strategy
Third Level Code	SC-C-MKT	Strategic Content – Content elements in a small business plan – Marketing plan
Third Level Code	SC-C-PRO	Strategic Content – Content elements in a small business plan – Product offering / business description

Type of Code	Code	Definition
Third Level Code	SC-C-FIN	Strategic Content – Content elements in a small business plan – Financial information
Third Level Code	SC-C-COM	Strategic Content – Content elements in a small business plan – Competitor analysis
Third Level Code	SC-C-VIS	Strategic Content – Content elements in a small business plan – Vision and mission statement
Third Level Code	SC-C-ENT	Strategic Content – Content elements in a small business plan – Entrepreneur characteristics
Third Level Code	SC-C-OTH	Strategic Content – Content elements in a small business plan – Other content considerations
Master Code	PE	Performance
Sub Code	PE-PMU	Performance – Measures of performance used by investors for an early growth stage QSE
Sub Code	PE-EDP	Performance – Expected primary dimensions of performance by investors
Sub Code	PE-OTH	Performance – Other issues regarding performance dimensions
Master Code	BE	Black Economic Empowerment
Sub Code	BE-ISU	Black Economic Empowerment – Investor sense of urgency
Sub Code	BE-IRB	Black Economic Empowerment – Investor requirements for BEE
Sub Code	BE-CTP	Black Economic Empowerment – Change to planning process
Sub Code	BE-CTC	Black Economic Empowerment - Changes to strategic content of a business plan
Sub Code	BE-CPD	Black Economic Empowerment – Changes to performance dimensions
Third Level Code	BE-CPD-FIN	Black Economic Empowerment – Changes to performance dimensions – Financial
Third Level Code	BE-CPD-HRP	Black Economic Empowerment – Changes to performance dimensions – Human Resources

Type of Code	Code	Definition
Third Level Code	BE-CPD-FLE	Black Economic Empowerment – Changes to performance dimensions – Flexibility
Third Level Code	BE-CPD-QUA	Black Economic Empowerment – Changes to performance dimensions – Quality
Third Level Code	BE-CPD-CUS	Black Economic Empowerment – Changes to performance dimensions – Customer Satisfaction
Third Level Code	BE-CPD-TIM	Black Economic Empowerment – Changes to performance dimensions – Time

Table 17: List of Codes and Definitions