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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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THE IMPACT OF PLANNING AND CONTROL ON SERVICE SMES SUCCESS

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ABSTRACT

*Management literature shows that planning and control managing tools are very common mechanisms supporting daily organizational operations. The purpose of our study is to investigate the impact of planning and control mechanisms on the success of service sector SME's. Data for the study were collected during the year of 2010 using a comprehensive questionnaire submitted to a sample of **2**94 service SME business owners in Israel. They were approached via a snowball convenient sampling method. Research findings indicate that larger businesses in the SME sector implement planning and control systems more than smaller ones. Study results did not find any evidence of positive impact of planning and control management mechanisms on business success. However, it was found that human capital acts as an indirect positive mediating factor.*

KEYWORDS
Human Capital, Performance, Planning and Control, Service Organizations, SME.

INTRODUCTION

Planning and control systems are management mechanisms supporting daily organizational work by developing work plans and defining the monitoring and feedback processes and tools to verify the level of achievement. It also creates various operational data bases to support the management in decision making processes.

Malmi and Brown (2008) define management control systems (MCS) as a package despite the existence of the idea in management accounting literature for decades. The first question to be addressed is what control is and what is meant by MCS? Some authors have outlined very broad conceptions of what could be considered MCS. For example Chenhall (2003) discussed management accounting (MA) which is a "collection of practices such as budgeting or product costing", management accounting systems (MAS) which is the "systematic use of MA to achieve some goal" and MCS which "is a broader term that encompasses MAS and also includes other controls such as personal and clan controls". He also notes that the term organizational control "is sometimes used to refer to controls built into activities and processes such as statistical quality control, just-in-time management" (p. 129).

Merchant and Otley (2007) note that broader conceptualizations of control can include factors such as strategic development, strategic control and learning processes, all of which are typically beyond the scope of management accounting. In these conceptualizations "almost everything in the organization is included as part of the overall control system"2 (p. 785). Merchant and Van der Stede (2007) separate management control from strategic control and define management control as dealing with employees' behavior. "It is people in the organization who make things happen. Management controls are necessary to guard against the possibilities that people will do something the organization does not want them to do or fail to do something they should do If all employees could always be relied on to do what is best for the organization, there would be no need for MCS" (p. 8). Abernethy and Chua (1996) employ the same line of argument in defining an organizational control system as comprising "a combination of control mechanisms designed and implemented by management to increase the probability that organizational actors will behave in ways consistent with the objectives of the dominant organizational coalition" (p. 573). Flamholtz et al. (1985) defined organizational controls as: "attempts by the organization to increase the probability that individuals and groups will behave in ways that lead to the attainment of organizational goals (p. 36). They proceeded to define organizational control systems as "techniques and processes to achieve goal congruence which may be designed for all levels of behavioral influence: individuals, small groups, formal subunits and the organization as a whole" (p. 36). Note that their definition of organizational control is much broader than their definition for organizational control systems. The former allows many different types of controls (e.g. rules), whereas the latter definition is focused only on those systems that aim for goal congruence. Management controls include all the devices and systems managers use to ensure that the behaviors and decisions of their employees are consistent with the organization's objectives and strategies. Planning is a very dominant corner stone of MCS packages. Planning is an ex ante form of control (Flamholtz et al., 1985). Firstly, it sets out the goals of the functional areas of the organization, thereby directing effort and behavior. Secondly, it provides the standards to be achieved in relation to the goals, and clarifies the level of effort and behavior expected from organization members. Furthermore, planning can enable co-ordination through aligning a set of goals across the functional areas of an organization, thereby controlling the activities of groups and individuals to ensure they are in line with desired organizational outcomes. In relation to planning, there are two broad approaches. The first is action planning, in which the goals and actions for the immediate future, usually a 12-month period or less, are established. This has a tactical focus. The second broad approach is long-range planning, in which the goals and actions for the medium and long run are established. This has a more strategic focus. Merchant and Van der Stede (2007) present planning and budgeting together as the financial results control systems. However, planning can be done with little reference to finance. In strategic planning, management can create strategic projects and other initiatives, all of which may be effective in directing what people do. Similarly, operational planning often comprises task lists, which provide guidance on what to do, perhaps without clear link to finance and accounting.

Large organizations, such as multinational corporations, typically have a multi-layered organizational hierarchy. One ambiguous issue is how the elements of a control package relate to each other down the organizational levels? It would seem likely that at the various organizational levels emphasis would be give to different control systems. At the very senior management level in large organizations there are seldom many procedure-based controls. Conversely, policies and procedures may dominate at the shop-floor level. Not only is it unclear how the control package is configured at the different organizational levels, but we also do not know whether these different configurations have an impact on each other (Malmi and Brown, 2008).

In contrary, SMEs usually cannot afford to establish and manage MCS packages mainly due to the lack of formal management background and experienced professionals (Human Capital) to operate these MCS systems. MCS are costly and time-consuming to install and operate. As a consequence, SMEs are likely to choose their first set of MCS very selectively. MCS in SMEs differ from those confronted by mature firms for three reasons. First, mature companies usually have an extensive amount of formal systems already in place and, SMEs. Second, the first MCS introduced provide a foundation for the future development of MCS in the firm (Davila 2005). In this respect, while the main concern in a mature company will be how to integrate new MCS with the existing ones, a young firm must consider how the first MCS will affect the choice of future MCS. Third, SMEs utilize informal control systems more intensely than do mature firms (Cardinal et al. 2004; Moores and Yuen 2001) and, thus, they might decide to invest only in those formal MCS that liberate managers from routine operations and allow them to informally focus on the firm's strategy. Sandino (2007) conducted a study in two phases using data from 40 field interviews and 97 responses to a survey directed to early-stage store-based retailers. In the first phase, based on the field study, the study sought to understand what initial MCS were introduced in early-stage firms and why. It was found that the initial MCS introduced in early-stage firms could be categorized usefully based on their purpose. In the second phase the survey data was used to test: (1) whether the strategy pursued by an early-stage firm significantly determines the firm's choice of particular categories of initial MCS, and (2) whether early-stage firms with a better fit between the initial MCS and their strategy experience superior performance. King et al., (2010) study, presents evidence linking contingency factors, adoption and extent of budget use, and business performance in the Australian primary healthcare setting. Peel and Bridge (1998) studied the use of strategic planning among SMEs in the UK manufacturing sector. Their findings show that SMEs incorporate a range of objectives into their strategic planning process, with profit improvement perceived to be the most important objective, followed by sales growth. SMEs engaged in detailed strategic planning are more likely to use formal capital budgeting techniques, including the net present value method, which is consistent with maximizing the company's value. Perceived profitability and success in achieving organizational objectives were positively associated with planning detail, suggesting that strategic planning is a key component improving performance. Lyles et al., (1993) developed an understanding of the benefits formal planning provides in the management of the firm. They indicate that as small business owners adopt more formal planning processes, there is a significant increase in the thoroughness of their decision process, the breadth of strategic options emphasized in their business activity, and their overall performance as measured by growth in sales. Brinckmann et al., (2010), show that business planning promises greater returns for the average small firm than for the new small firm. Their study indicates that the cultural context of the organizations significantly moderates the business planning-performance relationship. Further, they show that both the output of business planning (written planning) and the process of business planning (planning meetings, market and scenario analysis, use of computers, portfolio analysis) augment firm performance. Accordingly, they reject the proposition that the value of business planning can be explained mainly by the formal-legitimating or signaling function of written documentation. They concluded that both symbolic and the learning effects of business planning play a key role in augmenting small firm performance.

Large, complex firms commonly make extensive use of human capital programs-programs designed to affect workforce skill, motivation and performance. Further, such programs have been found, within a number of different settings, to positively affect organizational performance. Yet, human capital programs in the small business sector have traditionally been viewed as cost-prohibitive, limiting their use. But increasingly, SMEs are turning to HR outsourcing to provide these services. Klaas et al., (2010), in their study applied a diffusion of innovation perspective to determine why some SMEs adopt services while others do not. Their findings support the proposition that factors suggested by the rational account perspective would affect use of human capital programs at least among larger SMEs. They also found that emphasis on growth was associated with greater use of human capital programs, with this relationship being stronger among larger SMEs.

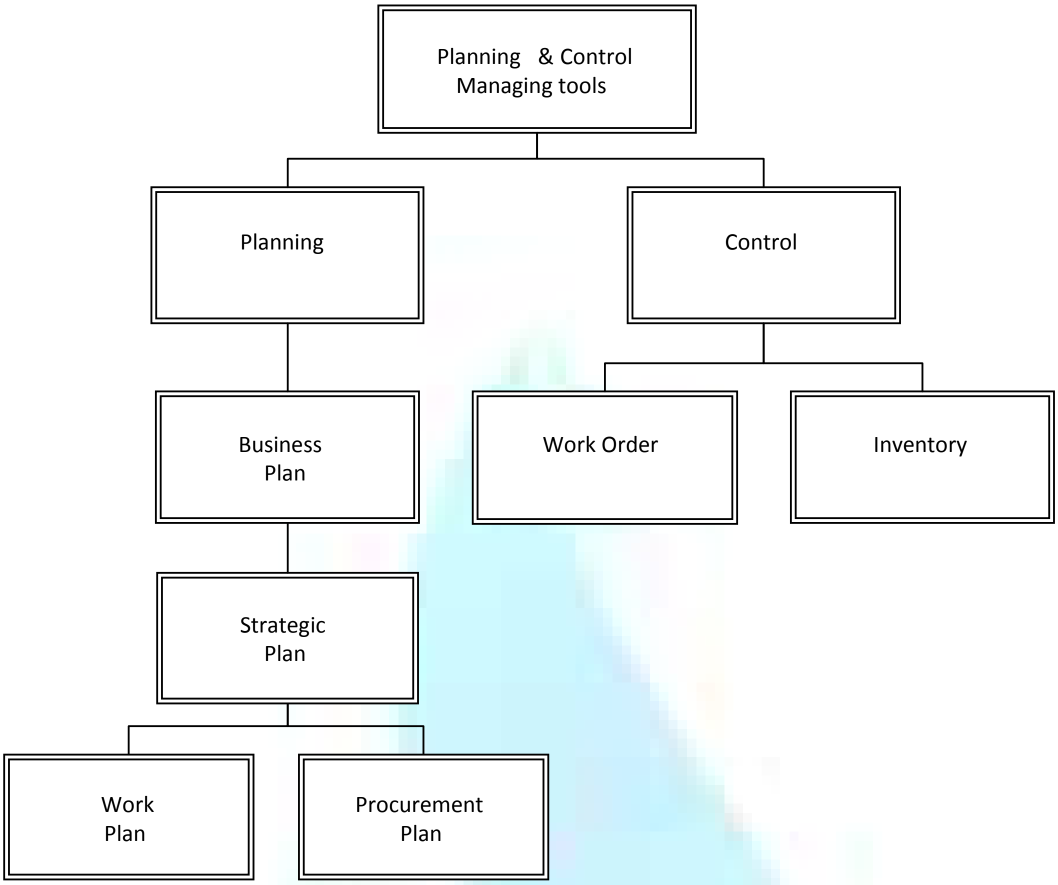
For more than three decades entrepreneurship researches have been interested in the relationship between human capital- including education, experience, knowledge, and skills- and success. A number of arguments suggest a positive relationship between human capital and success. Human capital increases owners' capabilities of discovering and exploiting business opportunities. Human capital helps owners to acquire other utilization resources such as financial and physical capital, and it assists in the accumulation of new knowledge and skills. However, uncertainty remains over the magnitude of this relationship as well as the circumstances under which human capital is more or less strongly associated with success (Unger et al., 2011). The study addresses the human capital-success relationship by systematically reviewing the literature and met analytically estimating the overall relationship between human capital variables and success.

Investments in human and social capital are widely believed to improve the performance of employees (Boselie et al., 2001). This is also the case for entrepreneurial performance (Van Praag, 2002). This is easy to understand since entrepreneurship is fundamental characteristic of modern knowledge-based economic activities. Bosma et al., (2004) researched the question: to what extent does investment in human and social capital, besides the widely believed determining effect of "talent", enhance entrepreneurial performance? The study's main findings show that the endowed level of talent of a small business founder is not the unique determinant of performance. Rather, investment in industry-specific and entrepreneurship-specific human and social capital contributes significantly to the explanation of the cross-sectional variance of the performance of small firm founders.

Entrepreneurial activity increases economic growth at national and local levels. Reynolds, Hay and Camp (1999) state, that a country's level of entrepreneurial activity explains significant proportion of the national economic growth rate. Henderson (2002) maintains that entrepreneurs have a significant impact upon local economies by fostering localized job creation, increasing wealth and income, and ultimately help to connect local economies to the larger global economy. In Israel small businesses are defined as of up to 50 employees with a turnover of up to $ 5 Million with at least 90% private ownership. Medium size businesses are defined as up to 100 employees with a turnover of up to $ 20 Million with at least 90% private ownership (Friedman, 2005). Data reveal that of all SME's 51% do not have any employees, 35% have one to four employees, 13% have five to 49 employees and only 1% of all SME's in Israel have between 50 and 100 employees and therefore are in the category of medium enterprises (Zucker, 2010). About 76% of all SME's are in the service sector. In comparison to the overall rate of businesses in the Israeli market the survival rate of SMEs is extremely low and consists of 30% at the end of 5 years. These findings are consistent with data on firm survival rates in most OECD countries where it is the smallest firms which are the least likely to last more than five years (Storey, 2002). The BDI found that the primary factors for SME survival in the first few years are marketing activities, short-term financing as well as human capital of the SME owner such as management skills and professional experience (BDI, 2006).

The purpose of our study is to investigate the impact of planning and control mechanisms on the success of service sector SME's. Figure 1 illustrates a common planning and control managing tools hierarchy.

FIGURE 1: PLANNING AND CONTROL MANAGING TOOLS HIERARCHY



Planning and control managing tools are very common mechanisms supporting daily organizational operations. In regards to planning, it starts out with a business plan continuing with a related long range strategic plan. For daily management it is common to use work and procurement plans. Typical control mechanisms include work order and inventory.

The literature review revealed that in regards to planning and control mechanisms it is usually investigated in the framework of large organizations. To the best of our knowledge we could not find related research conducted in SMEs.

The following hypotheses were developed in order to explore the impact of planning and control mechanisms on service SMEs success:

H1: There is a correlation between planning and control and sales/employee.

H2: There is no correlation between planning and control mechanisms in SME's.

H3: Larger SME's implement planning mechanisms more than smaller ones.

H4: Larger SME's implement control systems more than smaller ones.

H5: There is a correlation between the owner's human capital and the usage of planning mechanisms.

H6: There is a correlation between the owner's human capital and the usage of control systems.

H7: There is a correlation between human capital of the owner and sales/employee.

METHODS AND MATERIALS

DATA COLLECTION

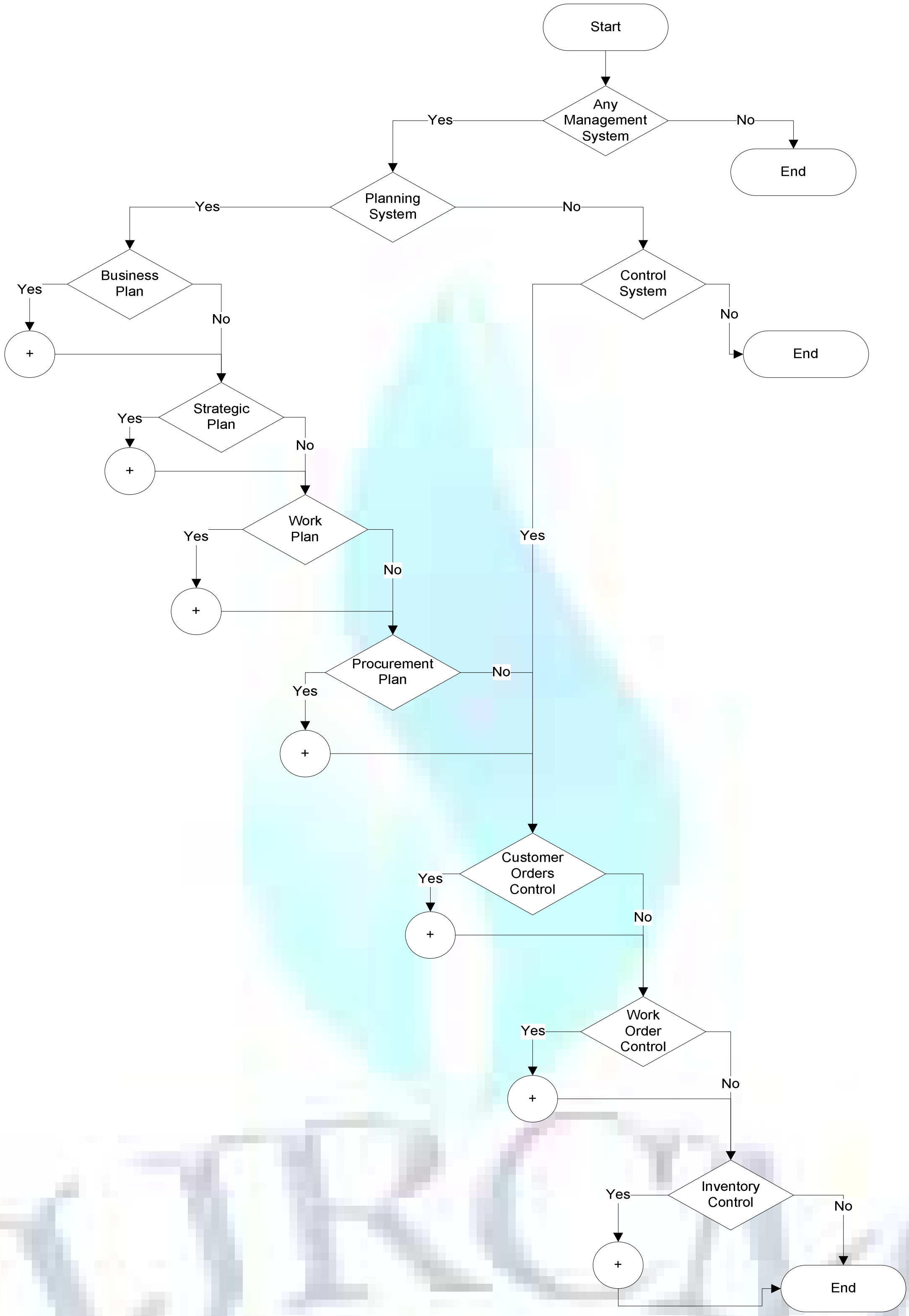
A comprehensive questionnaire was administered in 2010 to a sample of ***2***94 service SME business owners Israel. They were approached via a snowball convenient sampling method. Using a comprehensive questionnaire we gathered demographic data on the business owners themselves such age gender, family status, education, etc.; business data such as type, size in terms of number of employees, scope of investment and data on management control systems. The questionnaire was administered by interviewers in person.

Figure 2 illustrates the practical algorithm that was utilized in the process of data collection in the study.

VARIABLES AND MEASURES

Variables in our study describe characteristics of entrepreneurs, their businesses and management control systems. Personal characteristics of the entrepreneurs' concern gender, age, family status, number of children, and human capital. Business characteristics concern size and type of business, and scope of investment. Management control system includes two separate dimensions: Planning and control. The magnitude of planning used by the business owners was determined by investigating presence or absence of five issues: business plan, strategic plan, computerized management package, periodic work plan, and procurement process. The magnitude of control used by the business owners was determined by investigating presence or absence of four issues: using control system, using inventory control system, work planning control, work order control.

FIGURE 2: DATA COLLECTION ALGORITHM



Human capital is a constructed variable calculated as the sum total of following items: degree of relevance of owners' professional education to their business (range from 1 – not at all relevant – to 4 – very relevant); formal education of business owner (1 = up to 12 school years, 2 = 12 – 15 school years, 3 = more than 15 school years of formal education); occupational status of business owner prior to start-up (1 = unemployed, 2 = employed, 3 = self-employed) and management experience (1 = no, 2 = yes). Thus, the human capital constructs in our study ranges from 4 (lowest) to 12 (highest).

The range of magnitude of planning is from 0 (none of the items are present in a given business) to 5 (all of the items are present in a given business). The range of magnitude of control is from 0 (none of the items are present in a given business) to 4 (all of the items are present in a given business).

The dependent variable of our study is constructed as the ratio of sales (in NIS) and number of employees (Ulrich, 1999).

SAMPLE CHARACTERISTICS

About 73 % of the sample population is male and nearly 80% are married. Their mean age is 40 years ranging from 22 to 78. Table 1 depicts the ingredients business owners' human capital. The mean of the calculated human capital constructed variable is 7.9 ranging from 4 to 12 with a standard deviation of 1.76.

The distribution of business' types in our sample is comparable with the distribution of types of SME's in Israel (BDI, 2006). Figure 3 depicts the distribution of size of businesses in our sample in terms number of employees.

FIGURE 3: BUSINESS TYPES INVOLVED IN STUDY

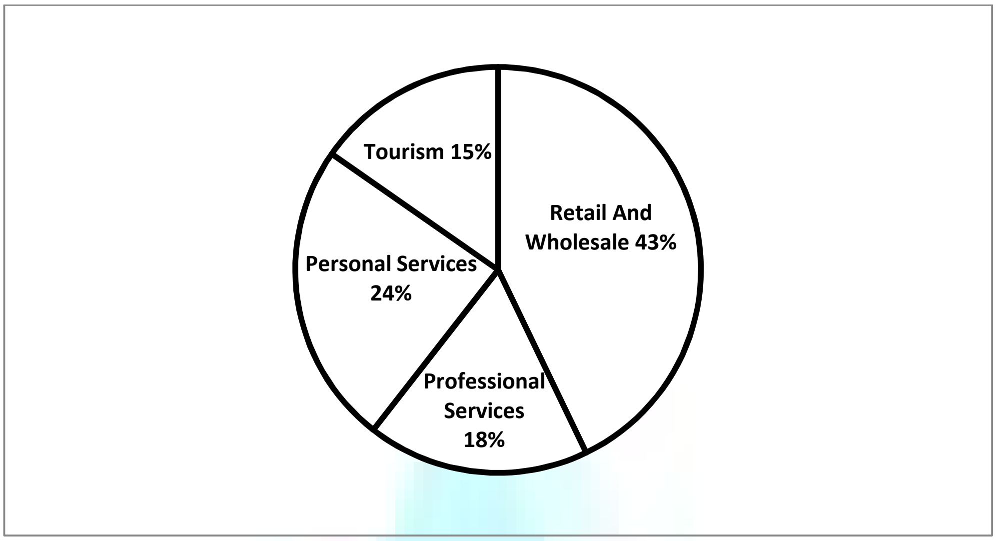


Figure 4 presents the Pareto analysis of business size intervals (number of employees).

FIGURE 4: DISTRIBUTION OF SIZE OF BUSINESSES INVOLVED IN THE STUDY

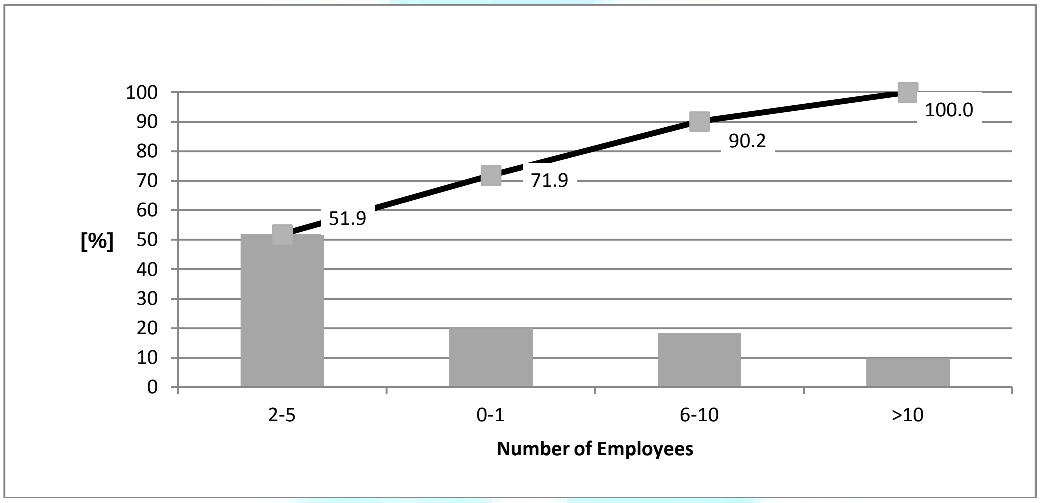


TABLE 1: HUMAN CAPITAL INGREDIENTS - FREQUENCIES OF CATEGORICAL VARIABLES

Category	Frequency	Percent
Formal education		
up to 12 years	181	61.6
13 – 15 years	66	22.4
15 + years	47	16.0
Total	294	100
Work experience prior to start-up		
Yes	150	51.0
No	141	48.0
Total	294	100
Occupational status prior to start-up		
self- employed	58	19.7
employed	220	74.8
unemployed	16	5.4
Total	294	100
Relevance of professional knowledge to business		
Not at all relevant	63	21.4
Not really relevant	54	18.4
To a certain degree relevant	82	27.9
Very much relevant	94	32.0
Total	294	100

The data reveal that about half of the businesses in our study employ between 2 and 5 workers and only about 10% have more than 10 employees. The mean number of employees is 5.3 ranging from 0 employees to 50 with a standard deviation of 6.59. Business size correlates significantly with scope of investment at start-up (Pearsons .429, p< .000). Owners of larger businesses invested more capital at start up. The mean business age is 7.9 years ranging from 1 to 36 years with a standard deviation of 6.8.

Table 2 reveals the descriptive data of the dependent variable (sales per employee) and the constructed variables planning and control.

TABLE 2: DESCRIPTIVE DATA OF VARIABLES

	N	Mean	Range	Std. Deviation
Sales per employee	274	100302.78 NIS	10,000 - 1 Mill. NIS	99087 NIS
Planning mechanisms	294	2.15	0 - 5	1.64
Control mechanisms	290	1.98	0 - 4	0.86

RESULTS

Table 3 depicts the correlations between the variables of our study. Observing the correlations it should be noted that neither planning nor control mechanisms correlate with the dependent variable of our study. Furthermore, owners of larger businesses do not necessarily rate higher on human capital. Table 4 depicts the results of Anova analysis comparing organizations with different sizes as to the implementation of planning and control mechanisms.

TABLE 3: CORRELATIONS BETWEEN VARIABLES

	Sales per employee	Human Capital	Planning Mechanisms	Control Mechanism	Size of Business
Sales per employee	-				
Human Capital	.213** .000 (276)	-			
Planning Mechanisms	ns	.230** .000 (291)	-		
Control Mechanism	ns	.131* .027 (287)	.271** .000 (291)	-	
Size of Business	-.124* .039 (278)	ns	.343** .000 (294)	.268** .000 (290)	-

The results of the Anova test reveal significant differences between the size groups of organizations and the use of planning and control mechanisms. Scheffe's post hoc tests indicate that for planning, control and planning and control those businesses employing more than 11 workers implement all mechanisms significantly more than organizations of smaller size.

TABLE 4: ANOVA ANALYSIS COMPARING ORGANIZATIONS WITH DIFFRENT SIZES

		Number of Mechanisms			
	N	Mean	Std.Deviation	Range	F (sig)
Planning					
0 – 1 employees	59	1.54	1.57	0-5	
2 – 5 employees	153	2.07	1.57	0-5	14.57
6 – 10 employees	54	2.18	1.56	0-5	(.000)
11+ employees	28	3.85	1.20	1-5	
Total	294	2.15	1.64	0-5	
Control					
0 – 1 employees	58	2.15	0.83	0-4	
2 – 5 employees	152	2.07	0.93	0-4	10.22
6 – 10 employees	52	2.05	0.84	0-4	(.000)
11+ employees	28	3.07	0.85	2-4	
Total	290	2.18	0.93	0-4	
Planning and control					
0 – 1 employees	58	3.65	1.98	0-7	19.22
2 – 5 employees	152	4.14	1.97	0-8	(.000)
6 – 10 employees	52	4.23	1.91	0-8	
11+ employees	28	6.92	1.86	3-9	
Total	290	4.33	2.13	0-9	

Figure 5 illustrates two clusters of organizations characterized by the number of planning and control mechanisms and the number of employees. Note that each data point in the clusters may represent a group of organizations.

FIGURE 5: CORRILATION BETWEEN FIRM SIZE AND IMPLEMENTATION OF PLANNING AND CONTROL MECHANISMS (PCMs)

The clusters presented in figure 5 demonstrate the study findings showing positive relationships between business size and the number of planning and control management mechanisms in service sector organizations. It may be observed that organizations with up to 15 employees have up to four planning and control management mechanisms while organizations with above 15 employees have five to eight planning and control management mechanisms.

DISCUSSION

Table 5 summerizes the study findings for the hypotheses investigated.

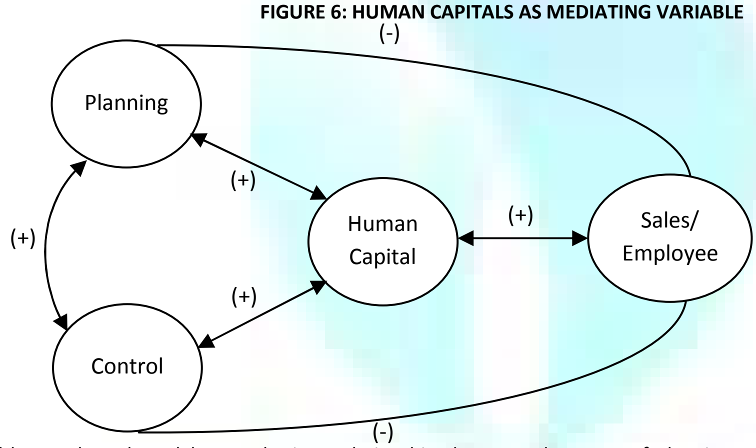
TABLE 5: SUMMARY OF HYPOTHESES TESTING RESULTS

Hypotheses	Test	Results	Accepted/Rejected
H1: There is a correlation between planning and control and sales/employee	Pearson's correlation	ns	Rejected
H2: There is no correlation between planning and control mechanisms in SME's	Pearson's correlation	.271** .000 (291)	Rejected
H3: Larger SME's implement planning mechanisms more than smaller ones	Anova	F = 14.572 Sig.= .000	Accepted
H4: Larger SME's implement control systems more than smaller ones	Anova	F = 10.220 Sig.= 000	Accepted
H5: There is a correlation between the owner's human capital and the usage of planning mechanisms	Pearson's correlation	.230** .000 (291)	Accepted
H6: There is a correlation between the owner's human capital and the usage of control systems	Pearson's correlation	.131* .027 (287)	Accepted
H7: There is a correlation between human capital of the owner and sales/employee	Pearson's correlation	.213** .000 (276)	Accepted

It should be noted that five out of seven hypotheses were accepted.

Figure 6 depicts the interesting and somehow unexpected importance of human capital and the fact that it is a mediating variable creating an indirect connection between planning, control and business performance in terms of sales per employee.

FIGURE 6: HUMAN CAPITALS AS MEDIATING VARIABLE



Further studies should be conducted to elaborate the interrelationships between the usage of planning and control management mechanisms and business performance in terms of sales per employee.

SUMMARY AND CONCLUSIONS

Planning and control systems are management mechanisms supporting daily organizational work by developing work plans and defining the monitoring and feedback processes and tools to verify the level of achievement. SMEs usually cannot afford to establish and manage extensive MCS packages mainly due to the lack of formal management background and experienced professionals (human capital) to operate these MCS systems. MCS are costly and time-consuming to install and to operate. As a consequence, SMEs are likely to choose their first set of MCS very selectively. MCS in SMEs differ from those confronted by mature firms for three reasons. First, mature companies usually have an extensive amount of formal systems already in place. Second, the first MCS introduced provide a foundation for the future development of MCS in the firm (Davila 2005). In this respect, while the main concern in a mature company will be how to integrate new MCS with the existing ones, a young firm must consider how the first MCS will affect the choice of future MCS. Third, SMEs utilize informal control systems more intensely than do mature firms (Cardinal et al. 2004; Moores and Yuen 2001) and, thus, they might decide to invest only in those formal MCS that liberate managers from routine operations and allow them to informally focus on the firm's strategy.

Investments in human capital are widely believed to improve the performance of employees (Boselie et al., 2001). This is also the case for entrepreneurial performance (Van Praag, 2002).

Our study findings support previous research. We did not find any correlation between planning and control and sales per employee (the measurement for performance/SME success). Our research findings indicate that larger businesses in the SME service sector implement planning systems more than smaller businesses. The same accounts the implementation of control systems: Larger SMEs implement control systems more than smaller ones. These findings comply with the fact that small organizations usually cannot afford the investment needed to establish these systems. Furthermore, findings indicate a positive correlation between the business owner's human capital level and the usage of planning or control systems. In addition, a positive correlation was found between human capital level and the success measure sales per employee.

It is Interesting to mention that we also found an indirect positive correlation between planning and control and business success via the human capital variable. No direct correlation was found between implementing either planning or control systems and SME success. The impact of the business owner's human capital

level in SMEs is more dominant and important than in larger organizations. This can be explained by the diversity of the human capital level (see table 1) where in larger organizations no such diversity can be expected.
The study investigated the impact of planning and control mechanisms on success of service SMEs in Israel. To our best knowledge there is no evidence in the scientific literature about studies investigating the issue of management control systems in SMEs. Therfore, a set of hypotheses was developed to explore the extent of implementing planning and control systems and its impact on business performance in small organizations. We thought that this research subject is crucial since the high failure rate of SMEs in general and in Israel in particular.
Following the research findings it is recommended that SMEs should invest in relevant human capital. Both international and Israeli studies highlight the importance of the investment in human capital as a key issue motivating business owners to implement planning and control mechanism thus improving business performance. Further research should elaborate the fact that we did not find in our study a direct correlation between implementing planning and control management mechanisms and business success.

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