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# **Factors Affecting Development of Business Plans by Small and Medium Enterprises in Kenya: A Survey of Commercial Rabbit Farmers in Thika District**

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## **ABSTRACT**

The contribution of small and medium enterprises to global economy in general and the Kenyan economy in particular has been recognized and well documented. Given their importance, it is important that these enterprises be planned for so that possible challenges are anticipated, possible solutions are put in place and their overall contribution of these enterprises to the economy is increased. There is documented evidence that business planning enhances performance of an enterprise. There is also documented evidence that most enterprises, especially those classified as small and medium do not engage in business planning. They therefore, as individual businesses fail to reap the benefits of planning while the economy as a whole also suffers high mortality rates of start-ups, which are crucial for employment creation. In view of the above, this study aimed at assessing the factors that affect development of business plans by small and medium enterprises using a survey of rabbit farmers in Thika District.

The specific objectives of this study were to look into the extent to which entrepreneurship skills, stakeholders' requirements and entrepreneurs' attitude impact development of business plans. It was anticipated that those who possess some business skills are in a better position to develop business plans; that those who have a close formal relationship with major stakeholders of their businesses are more likely to develop business plans; and that those with a positive attitude towards planning are more likely to develop business plans. This study adopted descriptive research design. The target population was all small and medium enterprises engaged in commercial rabbit farming. A sample of respondents was derived using a combination of cluster and simple random sampling techniques. A semi structured questionnaire was used as the main data collection tool.

All the entrepreneurs interviewed had an idea of what a business plan is. The study found out that an overwhelming majority (90%) of the respondents were of the opinion that entrepreneurship skills affect development of business plans by SMEs. A majority (85%)

indicated that business plans are influenced by stakeholders and their requirements. The major stakeholders that had a high impact on development of business plans by SMEs were found to be customers (90%), suppliers (80%), financiers (40%) and the government (40%). An outright majority (97%) confirmed that the attitude of the entrepreneur affects development of plans for his business. The study recommends among other things, a more active role of the government, through the various relevant ministries, in assisting SME entrepreneurs in developing business plans.

**Key Words:** Business plan, Small and Medium Enterprise, Business Planning.

## **1.0 Introduction**

SMEs have created the majority of new jobs in Organization for Economic Cooperation and Development (OECD) countries since the 1970s (Peacock 2004). Their collective contributions to respective Gross Domestic Product (GDP) (e.g., approximately 30% in Australia and New Zealand, 51% in the UK and USA, 57% in Canada and Japan, 76% in Luxembourg) is substantial despite their individual small size (Ayyagari, Beck & Demircuc-Kunt 2003).

In Kenya SMEs are a major source of employment and income generation. In the year 2002 MSE sector employed about 5,086,400 people up from 4,624,400 in 2001 which consisted of 74.2% of total national employment (CBS, GOK 2003). According to the Economic Survey (2006), the sector contributed over 70 percent of new jobs created in the year 2005. This percentage rose to 74.3 per cent in 2006 and 76.5 percent in 2007 (GoK Economic Survey, 2008). Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. SMEs reflect the competitive spirit that a market economy needs for efficiency; they provide an outlet for entrepreneurial talents, a wider range of consumer goods and services, a check to monopoly inefficiency, a source of innovation, and a seedbed for new industries; they allow an economy to be more adaptable to change through continuous initiatives embodying new technologies, skills, processes or products (Ibielski 1997).

Despite their significance, past statistics indicate that three out of five business start-ups fail within the first few months of operation (Kenya National Bureau of Statistics, 2007).

## **2.0 Problem Statement**

A number of studies suggest that having a business plan enhances growth in small enterprises (e.g. Bracker et al., 1988; Lyles et al., 1993; Schwenk and Shrader, 1993). Almost every entrepreneur recognizes the virtues of sound planning, yet it remains one of the most neglected aspects of management (Kinard, 1992). Business planning no doubt occurs in small enterprises (McCarthy, 2003). However, planning activities of SMEs are often intuitive, less sophisticated and less formalized in comparison to large enterprises (Naffziger and Kuratko, 1994; Stonehouse and Pemberton, 2002). Lack of proper plans in conjunction with other external factors such as unsupportive legislations, inaccessibility to markets and lack of financing have made SMEs to remain small and rarely graduate to medium or large businesses and are often characterized by low capital investment (McCormick, 2001).

According to Barringer (2008) a large percentage of entrepreneurs do not write business plans for their ventures. Many entrepreneurs say that the day to day pressures of getting a company up and running leave them little time for planning. Among the issues that have been identified as affecting business planning in SMEs include lack of management and technical skills (House, et al., 1990); various stakeholders whose interests should be taken to consideration (Moore et.al.,2006) and individual entrepreneur's attitude ((Muller, 1994). Therefore, the purpose of this study was to look into the factors affecting development of business plans by small and medium enterprises in Kenya.

### **3.0 Literature Review**

#### **3.1 Business Plan Defined**

It is the entrepreneur's roadmap to a successful enterprise (Cynthia 2006). It describes all the relevant internal and external elements involved when starting and running a venture. According to Cobweb, (2007) all businesses, whether new or established, should have a constantly evolving business plan in order to help them define their objectives and their strategies for achieving them.

#### **3.2 Entrepreneurship Skills**

In Kenya, one of the challenges faced by entrepreneurs in Small and Medium sized Enterprises (SMEs) is the lack of entrepreneurship skills to match their talent and passion for entrepreneurship (Matogo, 2008). Research shows that majority of the lot carrying out small enterprises in Kenya are not quite well equipped in terms of education and skills. Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they may not be well equipped to carry out managerial routines for their enterprises (King and McGrath 2002). Many SMEs owners lack entrepreneurial training and experience. The typical owners of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill 1987). Studies suggest that those with more education and training are more likely to be successful in the SME sector (King and McGrath 2002).

A consequence of poor or lack of the fore mentioned skills is that SME owners are ill prepared to face changes in the business environment and to plan appropriate changes. In addition, SMEs may not be in a position to outsource experts to close the skills gap in their enterprises given the many financial challenges that face them (Wanjohi & Mugure, 2008).

#### **3.3 Stakeholders' Requirements**

According to Moore et al, (2006) there are various stakeholders to an enterprise who may at one time or the other require guidance from the enterprise's business plan to make decisions. The stakeholders can either be internal to the business (e.g. employees and management) or external (e.g. lenders, suppliers, distributors and customers) (Longnecker, 2006).

By identifying the variables that can affect the success or failure of a business, a business plan becomes a model that helps the entrepreneur (management) focus on important issues and activities for the new venture (Longnecker, 2006). Moore (2006) indicates that prospective employees may require analyzing a firm's business plan as it is a structure for communicating

the entrepreneur's mission goals and objectives. Employees are able to see what is in it for them in terms of employee training and motivation (Moore, 2006). By enhancing a firm's credibility, the business can serve as an effective selling tool to use with suppliers (DeThomas & Derammelaere, 2003). For example, suppliers extend trade credit, which is often an important part of a new firm's financial plan. A well prepared business plan may be helpful in gaining a supplier's trust and securing favourable credit terms (DeThomas & Derammelaere, 2003). A business plan can improve sales prospects of a business e.g. by convincing prospective customers of a firm's potential for longevity, the plan may reassure those customers that the new firm is likely to be around for a longer time to continue as a procurement source (Longnecker, 2006). Financiers or lenders may require to see a firm's business plan (Longnecker, 2006). Formal financial institutions require marketable collateral, proper book keeping and most often a bankable business plan particularly for start ups (Mulei & Bokea, 1999). This then means that for those SMEs that secure funding from formal financing institutions there is high likelihood of them coming up with business plans. However, such SMEs are the minority (Steven & St Onge, 2005).

### **3.4 Attitude**

Studies show that the mental attributes of individuals have a significant impact on their work (Stevens, Philipsen & Diederiks, 1992).

In SMEs, the link between attitudes and plans is more likely to be direct because these enterprises have not yet developed bureaucratic blockages that shield managerial personalities from organizational processes (Muller, 1994). Due to the fact that SMEs have yet to develop institutional constraints to change, entrepreneurs are more readily able to instill their attitudes into the firm's activities (Muller, 1994). Carland et al (1984) suggests that the ability to separate one's attitudes from the operations of the firm is what distinguishes the entrepreneur from the business manager. The level in the organization that the manager occupies has an impact on the extent to which his attitudes can influence action plans (Munro & Noori, 1985). Since owner-managers tend to have a sort of 'super' managerial status their attitudes have a more direct impact on development of action plans. initial motivations for being in business determine whether owner-managers will pursue either (a) profit/growth maximization goals or (b) personal fulfillment goals. This choice of goals subsequently determines the planning imperatives of the business. Given that business planning is recognized as a vehicle to drive business development, competitiveness and hence, economic success (Vicere, 1995). It is proposed that owner-managers pursuing a profit/growth maximization agenda will be more inclined to engage in business planning. Conversely, those pursuing personal fulfillment objectives will be less inclined.

### **4.0 Methodology**

This was a descriptive survey research. According to Zickmund (2003), the main goal of a survey is to provide facts and estimates that can be used by decision makers to gain insights to understanding relationships, validate existence of relationships and make accurate predictions about relationships between business factors. The target population for this study comprised of

all SMEs engaged in commercial rearing of rabbits. There are currently 1,000 commercial rabbit farmers spread across various parts of the country, mainly in Central Province who are registered with the Association (Rabbit Breeders Association of Kenya, 2010). The researcher narrowed down to farmers in Thika District which then becomes the study population. There are 350 rabbit farmers in Thika District who are registered with the association. Rabbit farming in Thika is expanding with the association having its head offices here. Kenya Institute of Organic Farming (KIOF), one of the main trainers in commercial rabbit farming, is also situated in the district.

From the sampling frame (list of 350 rabbit farmers in Thika District) provided by the Rabbit Breeders Association of Kenya, simple random sampling was used to select a sample of 40 respondents who were then requested to participate as respondents in the study. Primary data was collected through a semi structured questionnaire while secondary data was collected from existing research findings, journals, books and the internet. The researcher personally administered the questionnaires to the respondents. Data was analyzed by use of measures of central tendency such as mean and mode. It was also analyzed by percentages and frequencies.

### **5.0 Findings**

This research found out that business planning is suitable for all kinds of business, small or large. 70% of respondents were of this opinion. Every business should plan as far as its capacity and ability allows.

A majority (85%) indicated that business plans are influenced by stakeholders and their requirements. This is a confirmation that businesses are complex relationships between entities and individuals each of which has a degree of effect on the operations of a business. The major stakeholders that had a high impact on development of business plans by SMEs were found to be customers (90%), suppliers (80%), financiers (40%) and the government (40%).

A majority (97%) confirmed that the attitude of the entrepreneur affects development of plans for his business. It confirms that plans and planners cannot be completely separated and more often than not the planner's biases will be reflected in his plans. The research also found out that a majority (90%) of entrepreneurs have a positive attitude towards planning. They appreciate possible positive results and benefits that a business can derive from planning.

The research established that continuous monitoring and evaluation affects development of business plans. 40 percent of the respondents mentioned monitoring and evaluation as a factor. Plans should be constantly reviewed to ensure that they reflect changing circumstances. Entrepreneurs should on a continuous basis appraise performance based on the set out business plan, meaning the plan itself and the strategies it puts forward are themselves assessed as to how far they go in meeting the expected objectives of the business. With continuous appraisal it is envisaged that any deficiencies in the existing plans will be mitigated and the entrepreneur is better prepared to develop a better business plan next time.

### **6.0 Recommendations**

The study recommends that the government, through the Ministry of Education come up with deliberate measures to impact entrepreneurship skills and culture among students at all levels. Such measures may include introducing entrepreneurship as major subject in secondary education. All technical colleges and polytechnics should also ensure that their students at one point or another in their technical training, undertake entrepreneurship as a unit or part of the course work. This will work towards developing skills and attitudes that make up an entrepreneurial perspective. With the right perspective and focus, entrepreneurs will perhaps be able to understand that they are separate entities with their enterprises. They will be able to focus on economic facts as benchmarks for planning rather than their own emotions.

The government should take a more active role in helping small entrepreneurs develop business plans e.g. field extension officers from the ministry of agriculture should be in a position to provide basic business planning information to livestock keepers. The youth is a major component of SMEs and the Ministry of Planning and that of Industrialization should be on the forefront to impact entrepreneurship skills and business planning abilities among the youth.

Further research should be carried out to establish the impact of monitoring and evaluation and business environment risks on development of business plans by SMEs.

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