

THE ANALYSE OF THE PLANNING HABITS EFFECTS TO THE BUSINESS EFFICIENCY

Fejér-Király Gergely

SAPIENTIA Hungarian University of Transylvania

Faculty of Economic and Human Sciences

Assistant Lecturer

E-mail: fejdkiralygergely@sapientia.siculorum.ro

Tánczos Levente József

SAPIENTIA Hungarian University of Transylvania

Faculty of Economic and Human Sciences

Assistant Lecturer

E-mail: tanczoslevente@sapientia.siculorum.ro

—Abstract —

This article analysis the managerial habits of IT sector in Hargita county, Romania. We conducted a research to see how do the managers the future planning's. We think that in Hargita county the companies in IT sector do some strategic planning but most of the companies makes decisions ad-hoc, without any future planning. In the mean time we think that the strategic thinking has more positive effect on financial results on the companies who make strategic planning.

Key Words: *strategic management, planning habits, IT sector.*

JEL Classification: M190 Business Administration: Other

1. INTRODUCTION

1.1. Short theory

The efficiency measurement shows the effectiveness of an economical activity. Its aim is to confirm and to support the efficiency of past decisions with numbers. (Neely, Platts, 1995). The concept of performance measurement has evolved in time, recent researchers tried to measure performance from a broader view of point, still the financial ratios remain the main indicators for companies (Santin and Caillie, 2006). To survive and to prosper in a turbulent, fast changing environment, companies need leaders that can draw strategic plans, leaders who are flexible enough to modify their leadership behaviour.

The fundamental question of strategic planning is to see the scale of its effectiveness on the company profitability and the capacity to create sustainable competitiveness. It is suggested to see if there is a connection between the strategic planning and financial efficiency/profitability. The theory and the practice is contradictory. While in opinion of Shrader, Taylor and Dalton (Sharder, Taylor, Dalton, 1984) there is no relevant connection between strategic planning and financial efficiency, there are others (Robinson and Pearce, 1984), (Sexton and Van Auken (1985), (Gable and Topol, 1987), who proved positive connection.

1.2. Hypothesis

In our opinion those firms who has strategic planning and the planning is continuous, their financial results and profitability are greater than those companies who makes no planning (operating decisions for daily activities or short term planning). Our observation is that in Hargita county, the strategic planning has no practice. Still our hypothesis is that in IT sector the companies makes strategic planning, because its managers have high educational degrees, they use planning models. The companies taken in our research has the activity of programming software for clients, having the Romanian activity code 6201 and 6202.

H: Strategic planner IT companies have higher profitability level.

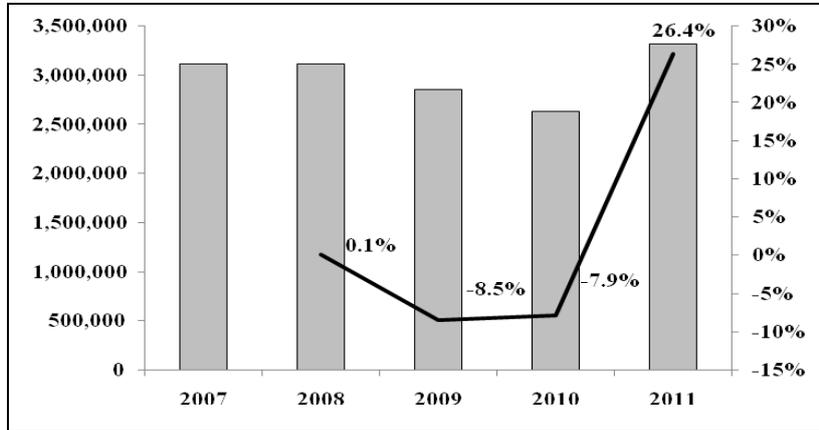
1.3. Short presentation of IT sector

Because of the strong education in the IT field, Romania is an interesting market in IT service, IT service outsourcing and IT product development. The industry

recovered from 2010. Based on the estimation of ANIS (Association of Software and Information Industry) the total number of employees is around 33,4 thousand employees. The main competitiveness of the industry is the high level of the performance, low cost/quality ratio.

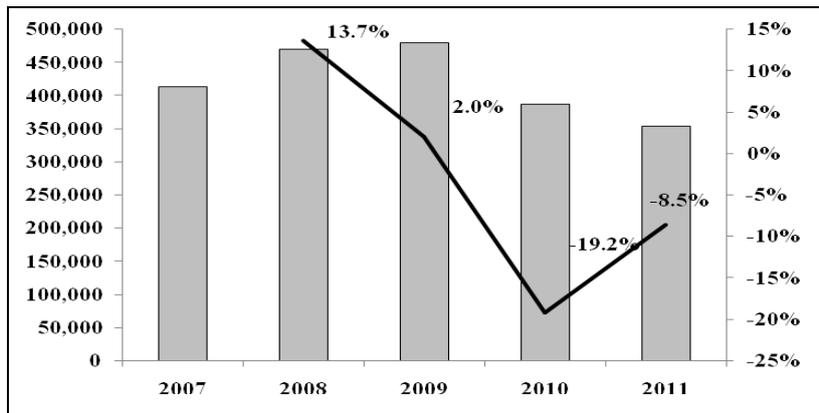
The situation in Harghita county is represented as follows. The registered companies¹ in this field have a number of employees of 119.

Figure - 1: Evolution of total sales (EUR) - 2007-2011



Source: Own calculation based on data of Romanian Finance Ministry. The currency exchanged is 4,3663 RON for EUR, currency of National Bank of Romania.

Figure - 2: Evolution of net income (EUR) - 2007-2011



Source: Own calculation based on data of Romanian Finance Ministry. The currency exchanged is 4,3663 RON for EUR, the currency of National Bank of Romania on 18.04.2013.

¹ The total number of companies in this field was 77 in 2011. Source: Institution of Public Finance Harghita County.

As the figures shows, the IT industry in Harghita county had a negative downturn after 2008, but after 2010 is recovering.

Table 1 shows the main financial indicators for the IT industry in Harghita county.

Table 1: Financial indicators of IT industry in Harghita county (EUR) - 2007-2011

Financial indicators	2007	2008	2009	2010	2011
No. of companies	74	71	71	71	77
Average sales - EUR	42.015	42.065	40.136	41.667	43.094
Average ROA	22%	-1%	12%	-14%	138%
Average ROE	119%	231%	80%	296%	297%

Source: Own calculation based on data of Romanian Finance Ministry. The currency exchanged is 4,3663 RON for EUR, the currency of National Bank of Romania on 18.04.2013.

The calculated high values are due to the greater net income of the companies. Analyzing the financial statements we can conclude that most of the new companies with small investment made great incomes. The companies who already where on the market consolidated their position.

2. RESEARCH

Our research is based on the empirical study of the companies near Csíkszereda². The empirical study is based on the strategic planning habits and the calculation of the financial indicators from the yearly financial statements.

2.1. The strategic planning habits of the studied companies

We tried to study form different point of views the planning habits. We asked what they think of their planning style, and we searched for methods to see the planning habit of a company. 75% of the asked leaders answered that the strategy is a written plan, which is useful to work out the objectives. 25% of the leaders thought that the strategy is in one part an advanced written plan and the other part is a plan that evolves in time while operating, helping to realise the objectives. Nobody thought that the strategy is a visualization in the entrepreneur head which helps to ameliorate the company. So we can conclude that in the definition of the company leaders the strategy is a written document which helps to move to the mission of the company.

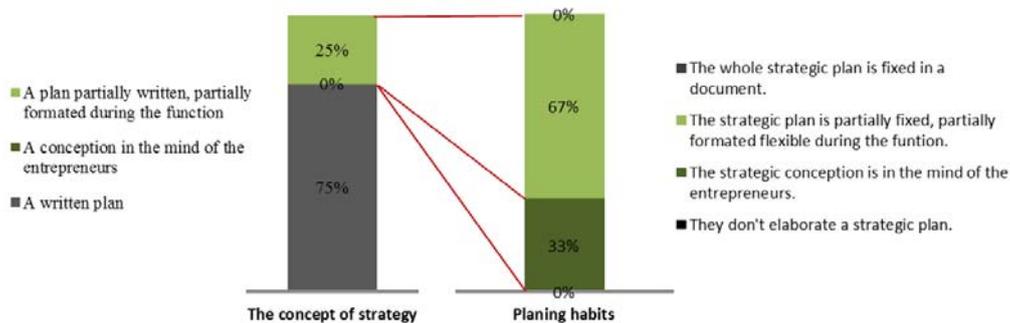
² Csíkszereda is the biggest town in Harghita county, where centralises the IT sector.

Studying their habits we got the results, that even the operation phase is not based on written strategy plan. 67% of the interviewed companies has a written plan which is developed with the ideas of the leader. The remained 33% of the leaders said that there is a plan only in idea phase, there is no written form.

The mentioned discrepancy is shown in figure 3. The interviewed leaders said that the main problem of not doing the planning is the limited time and the lack of educated employees. These factors are mentioned in the 90% of the interviewed leaders.

The definition of the general aims it was very similar in the sample. 92% of the leaders pointed out moderate growth in their objectives. 75% of these, would like to reach the objectives based on a strategic partnership.

Figure-3: Definition of strategy and the planning habits



Source: Own research

2.2. The financial indicators of the studied companies

Along the interviewed companies we calculated the IT industry financial indicator averages (the used indicators were: liquidity, cash ratio, return on sales and return on equity).

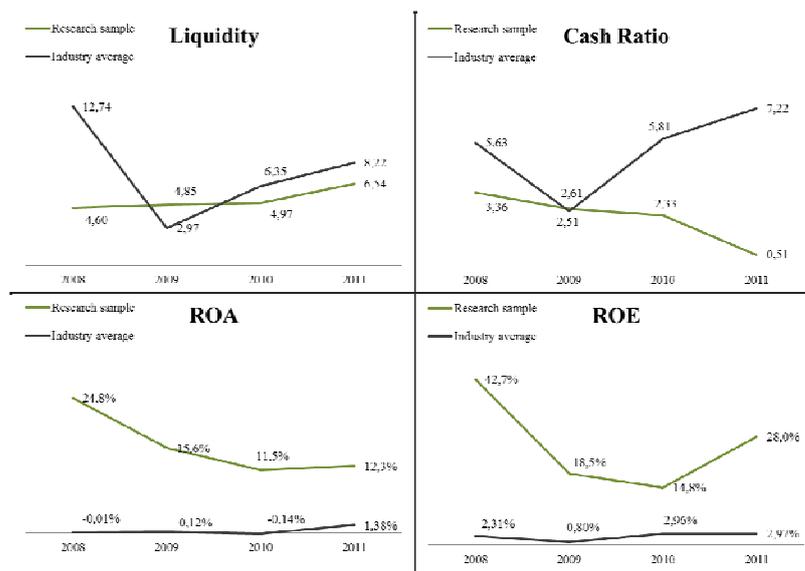
We used the financial data from the data base of the Romanian Ministry of Finance for the period of 2008-2011, the results are show on figure 4.

The liquidity and cash ratio for the studied companies is under the average of the industry average. Till the liquidity in both cases follows each other, the cash ratio is like an opening scissor, this is because the industry has increased in the last 2 years. The studied sample average decreased.

If we study the ROA and ROE we can see that the sample average is bigger than the industry average. The industry average in the case of ROE stagnated in the last two years.

Another indicator that we calculated was the total sales on employee, shown in figure 4. The indicator decreased in the studied period because the number of the employees overgrew the totals sales. This happened because these companies are hiring more and more (the labour demand in IT sector has a lack of employees).

Figure-4: Financial indicators between 2008-2011



Source: Own research

Table 2: Total sales and number of employees

	2010	2011	2012
Average number of employee	7,6	8,3	9,6
Average revenue (EUR)	214.949	217.604	226.466
Average revenue/employee (EUR)	29.845	28.178	22.914

Source: Own calculation.

2.3. Presentation of the relation between strategic planning and efficiency

We investigated our hypothesis empirically and with financial indicators. We thought those companies who make strategic plan have greater efficiency. In these cases the financial indicators should be greater.

2.3.1. Grouping the companies on the base of planning habits

At the general presentation of planning habits we introduced one way of grouping. On the right side of figure ... we can see that 67% of the interviewed has the planning in writing or in mind. 33% makes plan in head, without any writing document. We used this factor as base of our grouping.

An another approach is made with a question in which we asked about different methods used in planning, and the frequency of this usage. In the question, the interviewed person had to sign on a scale of 1 to 5 the frequency of the usage of the method. (1 - never, 2 - rarely, 3 - 2-3 year frequency, 4 - yearly, 5 - more than once per year). The most frequently used method was the financial statement analysis. The calculated index was 4,17 which means that they used more than once per year.

Table 3: The types of analysis in order of monitoring frequency

Types of analysis	Average score
Own financial performance	4,17
Customer satisfaction research	3,92
Technical environmental analysis	3,75
Supplier partners analysis	3,67
Productivity monitoring	3,58
Marketing channel analysis	3,33
Competitor assessment	3,25
Analysis of overall economic environment	3,25
Analysis of cover indicators (product/customer)	3,17
Overall/financial analysis of customers	3,08
Analysis of legal/fiscal environment	3,08

The question above was analysed horizontally, meaning the average frequency usage of the analysing method. The calculated average was 3,48 and this was the second point of view of grouping the sample. The company which has an average under 3,48 we considered that company who don't uses strategic planning. The company with an average above 3,48 that company uses strategic planning.

2.3.2. The effect of planning habits on efficiency

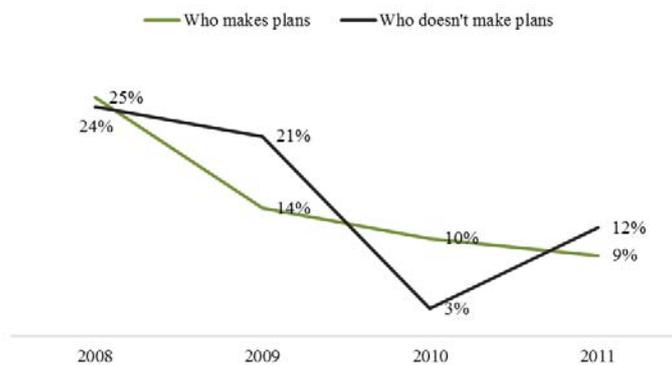
To measure the efficiency we used the return on assets. Another financial indicator would be the return on equity, but this indicator distort the results because of the Romanian legislation due company founding³.

The grouping on which we studied the effect is:

- 1st group - Who makes plans - leaders that manage the companies with plans based on written document and ideas,
- 2nd group - Who doesn't make plans – leaders who has no plans based on written document.

Figure-5 shows that between the 2 groups there is no relevant difference. In the studied period, two years one group had a greater ROA indicator than the average, and two another years the other group had a greater average.

Figure-5: The average of ROA of analysed groups in 2008-2011 (method 1.)



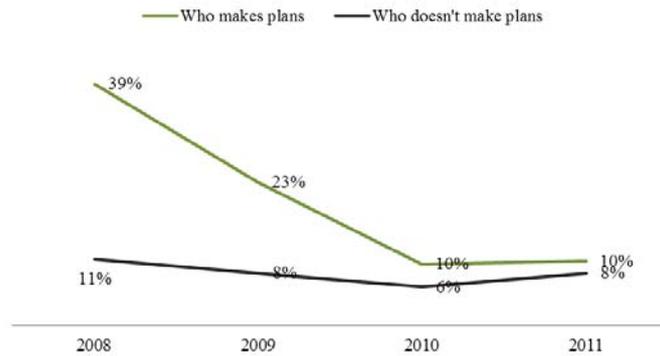
Source: Own calculation

The results show that our hypothesis can be not accepted. We cannot say that better planning habits have effect on better results.

The second analysing method has better results, because we asked about the leaders' knowledge on the strategic models used in planning. The two groups have the similar name as above (companies who make plans and companies who does not make plans).

³ In Romania the minimal equity needed for start up a company is 50 EUR, which is not enough. In this case the owners put the necessary money as debt to owner, in this way the ROE is distorting the results.

Figure-6: The average of ROA of analysed groups in 2008-2011 (method 2.)



Source: Own calculation

With this grouping our hypothesis is sustained. The companies who use strategic planning methods have better financial results. But the efficiency indicators are very close to each other at the end of the studied period in both groups.

3. CONCLUSION

Using more precise analysing methods our hypothesis is justified. We can say that the usage of strategic planning methods has effect on financial results, but this is true only on the studied sample. We studied the members of the IT cluster in Harghita county, so the results are correct only for these members. The sample number does not allow making bigger conclusions.

To develop the research is needed to make investigation on bigger sample and in other industries too.

BIBLIOGRAPHY

Gable, M. and Topol, M.,T., (1987), "*Planning practices of small-scale retailers*", American Journal of Small Business, No.12, pp. 19-32.

Magdolna, Csath (2004): *Stratégiai tervezés és vezetés a 21. században*, Nemzeti Tankönyvkiadó, Budapest, pp. 16-46.

Neely, A., Gregory, M. and Platts, K., (1995), "Performance measurement system design, *A literature review and research agenda*, International Journal of Operations & Production Management, Vol. 15, No. 4., pp. 80-116.

Robinson, R.B. and Pearce, J.,A, (1984), "Research trusts in small firm strategic planning", *Academy of Management Review*, No. 9., pp. 128-137.

Santin, S. and Van Caillie, D. (2006), "Diagnosis prior to transmission and recovery strategy for SMEs: a strong contingency relationship, in S. Drolet, L. LeBel (2010), "Forest harvesting entrepreneurs, perception of their business status and its influence on performance evaluation, *Forest Policy and Economics*, 12/2010, pp. 287-298.

Schrader, C.B., at all (1984), "Strategic and operational planning, Uncertainty and performance in small Firms, *Journal of Small Business Management*, No. 27(4)., pp. 45-60.

Sexton, D.L. and Vab Auken, P., (1985), "A longitudinal study of small businesses strategic planning, *Journal of Small Business Management*, No. 23(1)., pp. 7-15.

Yukl, G., (2008), "How leaders influence, organizational effectiveness", *The Leadership Quarterly*, No. 19., pp. 708-722.