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**THE STUDY ON INFLUENCE OF FAMILY OWNERSHIP
AND ENTREPRENEURIAL ORIENTATION ON FORMAL
PLANNING IN SME**

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Abstract

This study aims to analyze the differences in formal planning in Small and Medium Enterprises (SME) and the influence of family ownership and Entrepreneurial Orientation on these differences. Many studies have explained the importance of the management accounting practices such as short term and long term budgeting, but the differences in those techniques will determine the success and the failure of a SME. SME are an important part of the Sri Lankan economy as they contribute to more than 50% of the GDP. Therefore it is important to see how family ownership and Entrepreneurial Orientation will affect budgets of an SME and its financial performance. This research was conducted in Western province in Sri Lanka, using the survey method for 55 SMEs. Regression and correlation analysis were used to analyze the data. Results found through this study suggests that family owned SMEs use budgeting techniques to a lesser extent and higher the EO level of a SME higher the usage of short term and long term budgets would be. There were not many studies to find out the differences in budgeting used in SME. This study is one of the few studies to be conducted in Sri Lanka to find out the differences in budgeting used in SME.

Key words: Budgeting, SME, EO, Family ownership, Planning, Accounting

1. INTRODUCTION

Formal planning can be long term or short term. Plans for one year or less will be considered as short term planning for this study. Any plans above one year will be considered as long term planning. Since this study limits it-self to the planning in relation to management accounting, budgets concerned with one year or below will be considered as short term planning and various budgets for more than one year will be considered as long term planning. Budgets are considered as the formal planning dimension of management accounting. Chenhall and Langfield (1998) have stated in their study that both formal strategic planning and traditional budgetary practices both provide high benefits to an organization.

Since 75% of the business enterprises in Sri Lanka are Small and Medium Enterprises (National policy Framework for SME) it is important to understand the usage of formal planning of a SME as budgeting is proved to be important for SME performance. As suggested in McKiernan and Morris's study (1994), there is a strong positive relationship between formal planning/budgeting and the financial performance of a SME. Management Accounting practices such as planning, budgeting and control of financial and non-financial measures have a positive influence on SME performance as stated in Samuelsson et. Al. (2016).

Therefore in order to achieve high economic growth, it is important that SME which contributes largely to the economy of Sri Lanka achieves a high financial performance through sound budgeting techniques. In this study it is aimed to analyze the influence of family ownership and the entrepreneurial orientation to the budgeting techniques of a SME.

The research question of this study is "How family ownership and Entrepreneurial Orientation has influenced on budgeting techniques in SME?". The problem underlying the study is to find out how differences are formed between the budgeting techniques of SME and to what extent the family ownership and entrepreneurial orientation influence the differences. Proper planning and budgeting of a company will lead to proper financial performance and hence growth and continuation ad mentioned earlier. As suggested by the study done by Samuelsson et. Al. (2016), it was found that these two factors have significant relationships with budgeting of SME.

This study will limit it-self to the two variable mentioned above as family ownership and entrepreneurial orientation and their impact to the differences in formal planning in management accounting approach, even if there can be many other factors influencing the budgeting techniques of a SME. With the time constraints and ease of information gathering the study was limited to SMEs in Western Province of Sri Lanka. However, it is believed that the findings of this study can be replicated and generalized to other SMEs as well.

This paper consists of six sections. In the introduction section, the background and the aim of the study will be explained. The available literature will be discussed in the literature review section. Methodology section will explain the research approach, sample, hypotheses, and the variables. Data analysis section will discuss the data analysis method and the results section will be dedicated to present the findings of the study. Discussion section will be used to compare and contrast the findings of the study with the available literature and conclusion section will summarize the findings and will include the concluding remarks.

2. LITERATURE REVIEW

Small and Medium Enterprises (SME)

According to the Ayyagari et. Al study on small and medium enterprises in 2007, small and medium enterprises (SME) are defined as businesses with an employee number 250 or below. According to the National Policy Framework for Small and Medium Enterprise (SME) Development, SME plays an important role in Sri Lankan

economy. 75% of the Sri Lankan Enterprises are categorized as SME. They contribute to 45% of total employment and to 52% of the Gross Domestic Product. According to the same framework Small, Medium and Micro enterprises are categorized based on the employee number and the annual turnover as given below:

	Criteria	Medium	Small	Micro
Manufacturing	Annual Turnover	Rs. Mn. 251-750	Rs. Mn.16-250	Less than Rs. Mn. 15
	No. of Employees	51-300	11-50	Less than 10
Service	Annual Turnover	Rs. Mn. 251-750	Rs. Mn.16-250	Less than Rs. Mn. 15
	No. of Employees	51-200	11-50	Less than 10

Since this study is conducted in Sri Lanka, the guideline given by the National policy was chosen to select SME for studying.

Management Accounting in SME

According to Lopez and Hiebel (2015), management accounting used in SME is different from that of the larger enterprises. It was also found that management accounting techniques used in SME such as budgeting are largely less developed than the techniques used in larger organizations. The reason behind this is that larger organizations are using sophisticated systems than the SME. SMEs primarily use management accounting for external information purposes as found in the above mentioned research, which is a different purpose than the large organizations. Lopez and Heibel (2015) also stated in their study that improper and insufficient use of management accounting will lead to business failure as cost calculations and the price calculations will be inaccurate. SME performance will greatly benefit from the usage of proper management accounting practices.

According to Perren and Garnt (2000), management accounting techniques in SME are created mainly by the owner/manager through cycles of action, externalization and habitulaization. Techniques will be flexible but will remain under control of the owner/manager of SME. This indicates the influence of ownership on management accounting. And they also states that these techniques will change with the growth of the company and it will be challenged with the externally imported accounting conventions.

These apparent differences in budgeting techniques used in SME will make it relevant to explore whether family ownership and entrepreneurial orientation has influenced these differences in formal planning used by SME.

Formal planning and family ownership

According to Senftlechner and Hiebel (2015), family owned businesses face a lower level of information asymmetry compared to non-family owned businesses. Therefore, the need for information is also limited. Management accounting therefore, is less relevant in family owned organization than a non- family owned organization. And they suggest that more informal practices are being prominent in management accounting and inter personal relationships are more important. A separate Management Accounting unit is far less likely in small family owned businesses. Few strategic Management Accounting instruments are used in family owned businesses. Therefore, in this study it is suggested that, family ownership will encourage informal management accounting practices based on trust and interpersonal relationships in a SME. It is more likely that the management accounting function of a SME to be informal, incorporated in to another job role, and based on trust.

Chen et Al. (2009) states that, firms controlled by or associated with families, the decisions are not driven by value maximization solely. There can be owners' private motivations and goals. The study also states that effects of ownership control will overpower the effects of financial concerns on decisions. Therefore, decisions on accounting and financing will be majorly affected by the scope and the goals of owners, if it's a family owned SME. The study also states that, family owned businesses are less likely to enter into large scale investments. Therefore, this again suggests, the low need of advanced management accounting techniques for budgeting.

Samuelsson et. Al (2016) suggests that family owned SMEs will use less formal long term and short term planning than a non family owned enterprises. Family firms, due to less external influence need will lead to less competence in management accounting. Firms owned by families are more likely to come up with written documents for short term and long term plans rather than budgets. This research supports the same perspective of management accounting used in family owned enterprises as the previous researches.

Most literature sources suggest due to trust, lack of expertise and external influence and the limited need, family owned firms use few and less advanced management accounting for formal short term and long term planning.

Formal planning and Entrepreneurial orientation

According to the study conducted by Rauch et Al., (2009), Entrepreneurial orientation (EO) refers to the strategy making process that provide organizations with a basis for Entrepreneurial decisions and actions. Innovativeness, Risk taking and Pro-activeness are few dimensions of EO. In the same study it is suggested that, the performance of the firms are benefitted from EO. EO leads to a higher performance.

According to Samuelsson et. Al (2016), entrepreneurial firms use accounting information to a greater extent than other businesses and the owner/ manager will take part in preparing them. Forecasts and liquidity/cash budgets are considered essential for entrepreneurial firms. Financial awareness and control are connected to business ambitions and therefore, owner/ manager requires more accounting information. Risk taking behavior is associated with well-informed decision making, and hence management accounting techniques and budgeting are proven important. This study suggests a positive relationship between EO and formal planning. Higher the level of EO, more the SME s tend to plan activities. Therefore, formal planning will be influenced by the level of EO in a SME.

Andersen and Samuelsson (2016) have studied SME in Sweden. They have stated that, combined effect of EO and Management Accounting practices will positively influence performance of SME. However, the uncertainty in the firms will require different planning techniques. Hence it requires advanced management accounting and budgeting techniques.

As explained above many studies are done in the field of formal planning of SME and how family ownership and EO has influenced the techniques used in formal planning.

3. METHODOLOGY

A deductive quantitative approach was used to find out the relationship between family ownership and the management accounting techniques and EO and management accounting techniques used in SME. A survey method was adopted to gather data, and the instrument was a self administered questionnaire. Participation for the research was completely voluntary and information was treated in a highly confidential manner. A quantitative approach was taken for a similar study in Sweden by Samuelsson et Al. (2016).

Independent Variables

Independent variables were chosen as Entrepreneurial Orientation and family ownership, as discussed in the literature review and the introduction sections. Entrepreneurial Orientation (EO) was measured through a nine item scale of Covin and Slevin (1989). The indicators of EO is given below:

Innovativeness	Emphasis on marketing
	New lines of products and services
	Changes in products
Proactiveness	Responding to competitor actions
	Frequency to introduce new processes and techniques
	Tendency to avoid competition
Risk-seeking	Proclivity to low risk projects
	Owing to the nature of the environment
	Cautious decision making

The questionnaire included 9 questions to gather data the above mentioned aspects. Cronbach’s $\alpha = 0.80$ for the scale used to measure EO. Family Orientation was measured by a simple question, by asking the respondents whether the firm is owned by a family. All the indicators used to measure EO and family ownership was obtained from the study conducted by Samuelsson et. Al (2016).

Dependent Variable

The dependent variable for this study was the formal long term and short term planning using management accounting. A Likert scale ranging from 0-7 was used to assess the management accounting techniques used in the SME. Questions relating to importance of long –range forecasting and capital budgeting was included in the questionnaire for example. Long term planning was measured through four indicators and short term planning was measured through eight indicators as given below.

Long –term planning	<ul style="list-style-type: none"> • Long range forecasting, • Capital budgeting techniques, • Strategic plans developed together with budgets • Strategic plans developed separately from budgets
Short-term planning	<ul style="list-style-type: none"> • Cost control • Resources allocation • Management Compensation • Activity based budgets • Responsibility distribution • Day-to-day operations • Cash flow • Financial position

These indicators were adopted from previous studies. Long term planning indicators were adopted from Samuelsson et. Al's study (2016). Short term indicators were adopted from Chenhall and Langfield-Smith (1998). Cronbach's α was 0.8 and 0.85 respectively for the two planning sections.

Three control variables were used namely, age, solidity and administrative routines. Age was captured through the date of registration. Solidity was measured through capital to total assets ratio. Financial stability of a firm will influence the planning process of a firm as found in previous studies such as Samulesson et. Al (2016). Administrative routines were measured through the questionnaire by asking the respondent to rate the processes compared to competitors using a one item scale. This was included as the study only considered the planning aspect of the firm.

Hypotheses

Depending on the above given independent and dependent variables, four hypotheses were built as given below.

H₁-Short term budgeting is used in a lower extent in family owned SMEs than in non-family owned SMEs

H₂-Long term budgeting is used in a lower extent in family owned SMEs than in non-family owned SMEs

H₃-The level of EO positively affects the use of short term budgets in SME

H₄-The level of EO positively affects the use of long term budgets in SME

These hypotheses were tested in analysis and were used to come to conclusions.

Population and Sample

The population for this study was chosen as the SME in Western Province of Sri Lanka as mentioned in a previous chapter. Firms were identified as SME using the guidelines given by the National Policy Framework which was also mentioned in the literature review. Using the business Registry of Western Province and the data of Department of Census and Statistics of Sri Lanka, a sample of 100 firms were chosen from Colmbo, Gampaha and Kalutara districts using stratified sampling method. In the stratums, a random sample of SME s was chosen. Questionnaires were emailed to many of the SMEs. However, a set of questionnaires were mailed to another 25 SMEs with a stamped envelope as a strategy to ensure responses. A total of 125 questionnaires were distributed.55 of the firms have responded as at the deadline and those data were analyzed.

Analytical tools

SPSS was used to analyze data and extract results in this study. Data received through online questionnaires were automatically generated to an MS Excel and data received through post were manually entered to MS Excel, and entered to SPSS. Statistical analysis such as mean, median was used to analyze the age, solidity, and administrative processes. Cronbach's alpha was used to test the validity of the measures. Pearson's correlation coefficient and regression was used to understand the relationship between the dependent and independent variables given above. These tests were used as Samuelsson et Al (2016) has used same tests to conduct a similar research on SME.

4. DATA ANALYSIS AND RESULTS

The average age of a firm in the sample was 10 years. The average size of a firm was 10 employees. 60% of the sample was owned by a family. A regression test was performed for control variables. According to the results administrative processes are strong predictors of long term and short term planning. 10% of the variance of short

term planning was explained by administrative processes. Number of employees and administrative processes displayed a positive relationship with long term planning. However, there was a negative relationship between solidity and long term planning.

Independent variables were also analyzed using a regression analysis. Being a family firm is significantly and negatively related to short term planning. EO was positively and significantly related to short term planning. Family ownership was negatively and significantly related to long term planning. EO was positively and significantly related to long term planning. 20% of the short term planning was explained by family ownership and EO.

Interaction effects of the independent variables were not significant. Therefore, it was not considered as influencing on either long or short term planning.

5. DISCUSSION

According to the findings which were discussed above, being a family owned firm, negatively and significantly affects short term formal planning or budgeting. It indicates that, if the SME is owned by a family, it will not use advanced techniques for short term budgets, or not use budgets at all. Senftlechner and Hiebel (2015), have stated that due to the lower levels of information asymmetry would lead to lesser need of budgeting for short term. Since it is based on trust, owner or manager will take short term decisions, without much use of short term budgets. A similar opinion was presented by Samuelsson et. Al (2016). Due to the less external influence, there might be lesser need for management accounting. Most of SME, will concentrate on liquidity budgets as mentioned above. However, due to lack of knowledge or due to less statutory requirements, SME in Western province of Sri Lanka, don't seem to use much of short term budgets. Especially if they are family based, most of the planning will depend on interpersonal skills and networking. Therefore, H_1 can be accepted. Family owned enterprises use short term budgeting to a lower extent than a non-family owned enterprise.

Family ownership negatively and significantly affects long term budgeting of a SME, as per the results of this study. As discussed by Senftlechner and Hiebel (2015), very few strategic management accounting instruments are used in family owned businesses. The strategic management accounting and long term budgeting are also based on trust and mostly incorporated in to another job role. In most SMEs, there was no separate management accounting functions. According to Chen et Al. (2009), family owned firms rarely invest in large scale projects. Therefore the need for long term budgets is also less. Samuelsson et Al (2016) states that, less competence in management accounting for long term planning is based on the less external influence on family owned businesses. Depending on these reasons, being a family owned business will influence the SME to overlook short term and long term budgeting. This will prove H_2 correct as long term planning is used to a lower extent in a family owned business than a non- family owned business.

EO has a positive and a significant influence on short term planning, according to the findings of this study. It is also found that EO has a positive and significant relationship with long term planning as well. As per Samuelsson et Al. (2016), due to the increased use of accounting information in entrepreneurial firms, the need of formal planning will influence the positive relationship. Cautious decision making, introduction of new products and proclivity to risk taking, will require advanced budgeting techniques. Therefore, higher level of EO will require more short term and long term budgeting compared to a firm with a lower level EO. Samuelsson in his study has stated that Swedish SME s use more budgeting in preparation for strong competition. This can be applied in Sri Lankan context too. Gaining external finances will be another plausible option for the use of formal long term and short term budgeting for SME. More the EO, more the innovation and investments are going to be. More the

finance required, SME will have to gain credibility of the lenders by carefully planning and budgeting for investments. Based on these findings, H₃ and H₄ can be accepted. EO will have a positive relationship with both short term and long term formal planning in SME.

6. CONCLUSION

Family owned companies use long term and short term planning to a lesser extent than the non family owned businesses. Family ownership influences less formal planning in a SME. Less formal planning might tend to discourage better performance of a SME. Family ownership based on trust, will affect the stakeholders' interest in a SME, by affecting the hindered financial performance. As found by Chen (2009), owners might have their own goals, which will conflict with the value maximization of the firm. Therefore, it is important that owner/manager of the SME, to understand the value of formal planning, even in a family run organization to optimize the use of resources.

EO will encourage the use of formal long term and short term planning in a SME. Much previous studies have analyzed how EO affects the performance of a company, but this study analyzes how it affects the planning of a SME. By positively impacting Formal planning, EO impacts the performance of a SME. Therefore, it is important for a SME to have EO in their firms, in order to perform better in business. The relationship between EO and performance can be simplified by the findings of this study. Owner/Manager should have good entrepreneurial skills and proper budgeting skills combined to have a good performance.

Further studies could be conducted in other factors which will affect the formal planning of SME. It is important to enhance the performance of the SME as Sri Lankan economy is largely dependent on SMEs.

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