



IMPORTANCE OF BUSINESS PLANNING IN AN ENVIRONMENT LACKING ECONOMIC PREDICTABILITY

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Rezumat

Importanța planificării de afaceri în condițiile unui mediu economic lipsit de predictibilitate este sporită deoarece sporește capacitatea firmelor de a fi proactive. Este necesar însă să se accepte ca ipoteză fundamentală a procesului de planificare faptul că activitatea se desfășoară într-un mediu instabil, în care evenimentele impredictibile se produc frecvent. Planificarea este posibilă chiar și atunci când schimbările sunt frecvente și dificil de anticipat, prin adoptarea unui model flexibil de abordare a tuturor aspectelor semnificative.

Abstract

The importance of business planning in an environment that lacks economic predictability is enhanced because it increases the ability of firms to be proactive. It is however necessary to accept the fundamental assumption that planning activity is conducted in a turbulent environment, where unpredictable events occur frequently. Planning is possible even when changes are common and difficult to predict, by adopting a flexible model to address all significant aspects.

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The general importance of business planning is almost unanimously recognized, considering that the planning system is a mechanism that the company management can use to steer the future activity in pursuit of the proposed goals. The business plan offers a comprehensive image of the whole activity of a company, making easier to run the business, offering the possibility to evaluate new ideas and projects and allowing communication with different partners – suppliers, clients, financiers – current or potential.

Generally, it is considered that the business run according to a plan which covers all the managerial aspects and which directs the resources, not based on responses to events, has higher odds of success. The development of a business plan is an efficient method to focus the ideas of the entrepreneurs and managers. A framework of analysis is thus established, which can thereafter deal with changes. The absence of a business plan forces the companies to react to the existing changes more than necessary.

According to a recent study (Wilson, Eilertsen, 2010) the organisations paying more attention to strategic planning, relying on the principles and practices of strategic planning of company management during the period of economic crisis, have the capacity to be more proactive, not just to react to the changes of the external environment. They are thus able to a greater extent to benefit from the opportunities which appear during the moments of economic instability.

Planning usually relies on the general hypothesis that the activity runs in a rather stable environment, in which the unpredictable events occur with low frequency. Currently, the business environment in Romania is characterized by an important lack of predictability due to the general context of the economic crisis, combined with a political crisis as shown by the high incoherence of the public policies. We must also take into consideration, however, that there is a global dimension of unpredictability too, changes in the current paradigms being observed worldwide, mainly because of the technological factors (Rzveski, 2007). Within this context, we can not consider that the economic agents from Romania are the only which have to operate in an environment displaying major difficulties in terms of predictability. We are supporting the transformation of the general hypothesis mentioned previously in the assertion that the activity of companies runs in an unstable environment, in which unpredictable

events occur frequently. Once this hypothesis is set at the basis of the business plan, its construction leads to better results, adapted to the current economic environment.

A significant part of the business plan is the analysis of the previous existence of the business, which is done both descriptively, and using financial indicators. The forecasts for the future activity of the company – income from sales, operation costs, development of new products – rely, however, on a set of hypotheses. The elaboration and updating of this set of hypotheses is the key to the development and maintenance of a correct and useful business plan which makes it easier to run a company. It is easy to accept and understand the idea that the financial projections can not be better than the hypotheses they rely on.

The hypotheses used for business forecasts can be approached using two types of methods (Porojan, Bişa, 2007): a direct approach which presumes the extrapolation towards the future of the past trends – method accepted especially if the external environment of the company is stable and predictable – or a synthetic approach which takes into account the elements of change both within the internal and in the external environment of the company. The practice has difficulties which are not always included in the existing theoretical models.

The impossibility of developing a realistic business plan, under the conditions in which many of the hypotheses of the business plan change unpredictably, is one of the major problems mentioned by many managers. We consider that under such conditions it is not needed to give up this vital document for the economic agents, all they have to do is to change the approach. We agree, therefore, that the traditional instruments of strategic evaluation and planning are not very adequate in an environment characterized by incertitudes because they can not comprehend good enough the options and opportunities to which they have to answer (Amram, Nalin, 1999).

It is true that the various hypotheses issued for the business plan validate the financial projections. Such hypotheses refer to the volume of future sales, inflation rate, interest rate, level of tax and dues etc. These hypotheses can be changed, however, updated with the necessary frequency. It is essential not to maintain the initial

hypotheses, but the managerial capacity to control the changes in the initial hypotheses. The hypotheses of the forecasts must be reconsidered when aspect that may cause potential changes are identified. The changes in the external environment introduce in analysis additional risk factors or current risk factors with a higher level of risk – product price, raw materials price, utility price, time necessary to cash debts, cost with the labour force etc. In the absence of a framework which to allow quantifying all these changes and analysing their impact on the activity of the economic agent, the negative effect may be much stronger.

In such situations new, innovative solutions have to be found for an adequate planning. Such solutions may refer to aspects such as:

- Implementing the business plan in the activity of companies (currently, about 35% of the companies operating in Romania have no kind of planning, while only 13.5% have plans or strategies for 3-5 years (Nicolescu, 2009)).
- Transform the structure of the business plan, by including sections dedicated to the aspects that are difficult to predict but which are very important to the company.
- Transform the format of the business plan – shifting from a general format of printed document, to online format, interactive, editable.
- Adopting a new attitude on who is making the plan (manager, officer or external consultant), on who is monitoring that the plan is implemented and updated (manager or officer), on the frequency of such operations, etc.

If a business can be started or continued, it means that the external environment is not sufficiently adverse for it, and the business can and must be planned.

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