

## **Entrepreneurs vs. Business Plans: A Study of Practicality and Usefulness**

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*In higher education, the topic on business plan is relatively studied in great details to note the importance on formulating business plans. Business plans are regarded as the reference point for business people; managers and members of the board of directors, to really realize the business activities. At least, the topic on business plan, which are discussed and studied in universities, ought to have its own value in the real business operations. Many entrepreneurs, however, face difficulties in formulating structural business plans. Many entrepreneurs may not actually formulate business plans as they are regarded important in many classrooms' teaching, to provide necessary guidance toward corporate governance, opening up new business units, venture agreements, and/or expansion of business operations. Universities should provide connections between what is discussed in classrooms, and the implementation of such discussions in business practices. This research is intended to seek out relationships between the importance of structural business plans, and the practicality and usefulness of business plans for entrepreneurs in young organizations. The reference point for this research is business portfolio theory, both for individual and organization rational theory. One of such means discussed in this paper is the formulation and development of business plans to attract external funding in supporting the needs toward growth.*

**Keywords:** *entrepreneur, business plan, university, practicality, usefulness*

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### **Introduction**

The study of entrepreneurship has been widely accepted in many higher institutions in Indonesia; starting from undergraduate degree programs, all the way into graduate and post-graduate programs. Entrepreneurial activities do not seem to be far apart from risks. Perhaps,

the word "entrepreneurship" can be freely defined as one's willingness to take and assume risks in relation to one's available and/or potential resources, situations, and conditions (Iyigun and Owen, 1997; Krug and Metha, 2001; Earle and Sakova, 2001; Yogaswara et al., 2005).

This definition is further polished by Hisrich et al., (2005), who say that the word “entrepreneurship” represents the processes of trying to create something new. In doing the actual sets of process, entrepreneurs often required to assume, both risks and rewards (Hisrich et al., 2005). This definition appears simple to implement. Everybody wants to create something new; at least creating something different than what the market offers today, is perceived sufficient. It is also believed that by creating something new and different, it is equal to creating value for themselves and their surroundings (Venkataraman, 2001).

Whenever students are studying entrepreneurship, most likely one of the class topics to be discussed is definitely a business plan. As the name implies, business plan is one’s planning about his or her overall business operations in the future. With a business plan, it is said than an entrepreneur would have a formal documentation in writing, which indicates the path toward future destinations at a later date. Thus, a business plan provides the general view into the future. A business plan also entails constant reviews and evaluations, not only on deviations from the prescribed paths, but also on the current stage (Stutely, 1999). Some people refer to business plans as strategies toward the future.

From the standpoint of entrepreneurs, however, a business plan is regarded only as a mere simple documentation of notes on what those entrepreneurs plan to do. In most cases, business plans consist of only general figures on calculations on the general pricing,

terms and conditions. Such figures are not even representing the financial plans section in any business plans (Yogaswara et al., 2005; Yogaswara et al., 2006).

Thus, referring to the definitions above, it is apparent that the study of entrepreneurship and business plan in many higher institutions shows close intimacy. What about the practicality and usefulness of business plans as needed by entrepreneurs, in the real business practices? Entrepreneurs may have indicated that it is not necessarily the case (Yogaswara et al., 2005; Yogaswara et al., 2006).

Many of the foundations have been laid in previous studies, papers, and conferences, not only on the studies on entrepreneurship, but also on the entrepreneurs themselves as players, including the extensive analyses on business plans. For the purpose of extracting conceptual framework of thinking on entrepreneurship and business plan, this paper refers to academic sources on “Entrepreneurship” by Hisrich et al., (2005), and Stutely’s Business Plan (1999).

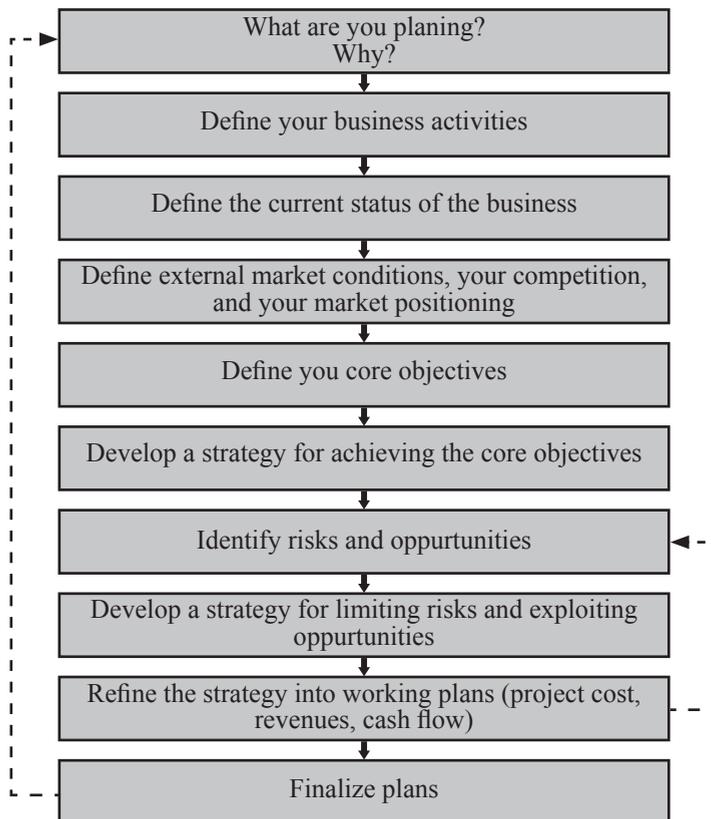
This paper attempts to seek out relationships between the importance of structural business plans, and the practicality and usefulness of business plans for entrepreneurs of young organizations. The structural business plans is defined as following and conforming to the recommended formats on formulating and developing business plans. The illustration shows an overview of the structural business plans (Stutely, 1999), which are commonly and widely discussed in entrepreneurship classes in numerous universities. Aside from the usually-estimated risks of uncertainties in setting-

up businesses, four pre-selected factors, on hyper-competition, technological advancement, shorter product life-cycle, and innovation, are incorporated.

The reference point for this study is business portfolio theory for young entrepreneurs. The business portfolio theory is used as a reference point since it assimilates both individual rational theory and organizational rational theory. It is considered rational for individual entrepreneurs to continue growing. It is also reckoned to be rational to

expand organizational activities by various means. Thus, it assumes that entrepreneurs are rationally seeking ways toward enhancing the business portfolios. One of those available ways toward improving the business portfolios is by formulating and developing business plans to attract funding from external sources. Such funding replenishes the organizational financial uplift with respect to the viability of operational activities. Other than risks, which are associated with new business establishments, other factors, such

Figure 1. Steps in Business Plan



Source : Stutely, 1999 (modified)

as; hyper-competition, technological advancement, shorter product life cycles, and innovation, are also incorporated into the studies to reveal the connection between the importance on formulating business plans, and actual business practices of entrepreneurs. These factors are integrated to hypothesize the connection between the importance on formulating business plans, and actual business practices of entrepreneurs, particularly in young organizations.

## Affecting Factors

In today's economy, not only in Indonesia, but also in many other countries, there are few affecting factors that entrepreneurs must acknowledge. These factors are considered separate from any risks entailing the initial set-up of organizations. When entrepreneurs forget to integrate such factors, revisions on business plans could be a major task, and thus, time consuming. This paper focuses on selected factors of; [a] hyper competition (D'Aveni and Thomas, 2004; Hisrich et al., 2005; Kotler, 2000), [b] technological advancement (Dauphinais and Price, 1998; Hisrich et al., 2005; Haag et al., 2004; Kotler 2000), [c] shorter product life cycles (Anantadjaya and Nawangwulan, 2006; Hisrich et al., 2005; Kotler, 2000; Haag et al., 2004; Yogaswara et al., 2005; Yogaswara et al., 2006), and [d] innovation (Dauphinais and Price, 1998; Burlton, 2001; Dunham and Venkataraman, 2002; Galliers and Leidner, 2003; Gamsey et al., 2004; Haag et al., 2004; Hisrich et al., 2005; Knyphausen-Aufsess and Bieger, 2006; Irawanto, 2006).

## Hyper-Competition

Like it or not, the first troublesome factor is hyper competition (D'Aveni and Thomas, 2004; Hisrich et al., 2005; Kotler, 2000). Hyper-competition is commonly seen in today's business practices as entrepreneurs face difficulties in trying to match the current stage with what they have planned previously. Hyper-competition results from the dynamics of strategic maneuvering among global and innovative combatants. Hyper-competition is a period where business establishments face constant ups and downs on their cycles as compared to past periods. Some examples of hyper-competition include the following, but not limited to; establishing first mover advantage, increasing price-equality positioning, creating new know-how, or deep pockets competition.

In order to manage those variations in the business cycles, however, many entrepreneurs must act accordingly to utilize the available resources properly. What those entrepreneurs may have planned before, may have to be totally revised to account for dynamics in the business environment. Often, what is happening across the Indonesian borders can substantially bring major impacts to the domestic business environment. Failure to take on considerations and/or taking precautionary steps toward hyper competition may unnecessarily delay any business creations or business developments. This impacts the competitiveness of the entrepreneurs.

Thus, this is to say that entrepreneurs must take into account all the available resources at the start-up stage; not only to use the funds wisely, but also to minimize exposures toward uncertainties in the near future. In order to face the reality of hyper-competition, it may be that entrepreneurs should use the framework of thinking as in the resource-based model. It simply means that entrepreneurs should start with what they already have on-hand. Hence, entrepreneurs must constantly develop business plans to “beat the odds” and putting their products and services ahead of the competitors.

Many accounting records are able to show symptoms of hyper competition. Entrepreneurs may have to look constantly on the records to formulate appropriate actions to ensure the sustainability of the business operations. Various accounting records, such as; sales, interest rates on loans, interest rates on deposits, and exchange rates, for example, are choices of records to note the likelihood of hyper competition. External variables are also available for use toward estimating the possibility of hyper competition; for instance, IHSG index, numbers of substitutes, marketable securities, inflation, and variations of price levels for similar products and services.

Based on the initial empirical studies of “entrepreneurial research” in 2005 and “management audit” in 2006, it is expected that these variables were able to show the symptoms of hyper-competition. The internal accounting records were projected to show the likelihood of impact of hyper-competition into

the organization. Individually, those variables may not able to show indications of hyper-competition. However, when those variables are evaluated together, it is probable that hyper-competition is endangering the organizations. When sales decrease, the borrowing rate increases, and the savings rate decreases, it may well be signaling the condition of hyper-competition. The rate hikes on exchange rates may also mirror the condition of hyper-competition since Bank Indonesia may have difficulties to maintain such exchange rates at favorable levels. This may be due to low demand of Rupiah’s in both domestic and international markets. Aside from these accounting records, it is also expected that other records may impact the organizational viability in facing the condition of hyper-competition. The increasing index on blue-chip stocks, higher inflation rate, the decreasing rate on marketable securities, the increasing number of product substitute in the market and the increasing price variations of those product substitutes are all hoped to show the condition of hyper-competition.

## **Technological Advancement**

Second, technological advancement is also another important factor to consider by entrepreneurs (Hisrich et al., 2005; Haag et al., 2004; Kotler 2000). With the presence of technology, entrepreneurs must act fast as if they have incorporated such technological advancement in their own business establishments. This is not a simple task to do since technology often carries premium price-tags.

The wide use of internet is also contributing the technological advancement in Indonesian industries. Aside from hi-tech machines in factories, the use of computer is just unbelievable. The so-called computer-less entrepreneurs may have difficulties in expanding their business when they ignore the power of computers.

Dauphinais and Price (1998) indicated that technology must be well-understood since sizeable leverage can be automatically obtained whenever technology is fully utilized in organizations. Thus, this is to say that entrepreneurs cannot just simply hope for the best for their organizations without actually doing anything, if they are not paying close attentions toward technological advancement in today's market. The traditional delegation style of leading an organization is considered obsolete. Entrepreneurs must involve in any organizational technological absorption and transformation processes. This may reduce the likelihood of potential deviations from the original paths.

This is to say that the use of assets, or commonly referred to as capital, should be managed properly. The manual way of doing things may no longer deliver the effectiveness that entrepreneurs often require. The use of a computerized payment system, for instance, should provide a significant boost toward the

entrepreneurs' overall business operations. As each of the sales transactions are entered into the computerized payment systems, entrepreneurs do not have to re-type the same transactions to account for re-stocking requirements. Without the help of computer payment systems, entrepreneurs may have to spend more time in trying to sort data to their preference as compared to sorting data using computers. Having said that, to account for technological advances, entrepreneurs must constantly develop business plans to ensure that the business operations are not lacking behind the competitors on technological absorptions.

Choices of available variables for use include; the use of computers, use of intranet, use of internet, owned a web address, owned an email address, use of particular software for managerial decision<sup>1</sup>, existence of EDP<sup>2</sup>, and use of LAN<sup>3</sup>, including the necessary funds toward purchases of those hardware and software, and internet-related expenses, perhaps.

Based on the initial empirical studies of "entrepreneurial research" in 2005 and "management audit" in 2006, it is expected that these variables were able to show the symptoms of technological advancement within an organization. When an organization starts deciding to use computers, intranet,

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<sup>1</sup> Software for managerial decisions includes; transactional processing systems, management information systems, decision support systems, and executive support systems, and not only the computer operating programs (Galliers and Leidner, 2003; Haag, et al., 2004).

<sup>2</sup> EDP stands for Electronic Data Processing. EDP commonly indicates computerized processing systems, which utilizes numerous software (Galliers and Leidner, 2003; Haag, et al., 2004).

<sup>3</sup> LAN stands for Local Area Network. LAN commonly indicates or consists of local connections between multiple computer units, printers, and servers, at least (Galliers and Leidner, 2003; Haag, et al., 2004).

internet, web, email address, various managerial software, EDP, and LAN, it is expected that this is a signal toward technological advancement and technological absorption. If an organization utilizes the technology, it is expected that the production and business process will be much easier to perform, faster, and better. This potentially brings about maximum level of efficiency in the overall organizational operations. As a result, organizations are at ease to face the condition of hyper-competition. Since those variables are merely provide categorical responses, other more “continuous” variables are chosen from the internal bookkeeping, which include expenses on hardware purchases, expenses on software purchases, expenses on internet use, and expenses on web development and/or regular maintenance. It is expected that the higher figures on those “continuous” variables, the more likely that an organization is aware on technological advancement, and thus, start absorbing such technological advancement into the organizational operations.

## **Shorter Product Life Cycles**

Third, in contrast to the past periods, product life cycles today are much shorter (Hisrich et al., 2005; Kotler, 2000; Haag et al., 2004; Yogaswara et al., 2005; Yogaswara et al., 2006). The hyper-competition has certainly shown its impact on the product life cycles. As the competition level increases, organizations are competing themselves with others to constantly provide new and better

products. This includes superb services toward customers as well as potential customers. As market shifts its objective toward customer-orientation, organizations are forced to pay more attention on the needs and wants of customers. As customers are more demanding than ever, organizations must also strive to meet their demands to stay in business. Doing a good job may not buy customers’ loyalty these days (Anantadjaya and Nawangwulan, 2006). Thus, entrepreneurs must put sufficient efforts to ensure that their products are safe in the market, while trying to launch another product in the near future. Having said that, it is apparent that today’s entrepreneurs must always be alert of the new product introductions by competitors. This means that entrepreneurs may constantly developing business plans on future products and/or services regardless of the actual timing following the latest product/service launching, or various types on current product and/or services in the market. Failure to do so may endanger the viability of the business in years to come.

Choices of available variables include; time required to observe modifications in competitors’ product designs, time required to distinguish modifications in competitors’ product packaging, introduction of new services, introduction of new flavors, introduction of new colors, price-bundling deals, sales promotional activities, and sales growth rate, for example.

Based on the initial empirical studies of “entrepreneurial research” in 2005 and “management audit” in 2006, it is expected that these variables were able to show the

organizational product status on the product lifecycles. Internal data is definitely used particularly to note the timing required to introduce new product design, new product packaging, new services, new flavors, new colors, price-bundling deals, sales promotional activities, budget on sales promotional activities, and sales growth. When the figures on those variables increase, it is expected that this is a signal toward shorter product life-cycle. As competitors introduce those types of variations in their products and/or services, the product life-cycle for existing products and services will be pushed shorter, as they are likely to be replaced by the new products and/or services.

## **Innovation**

Fourth, to successfully take advantage of the above factors, certainly innovation efforts cannot be overlooked (Dauphinais and Price, 1998; Burlton, 2001; Dunham and Venkataraman, 2002; Galliers and Leidner, 2003; Gamsey et al., 2004; Haag et al., 2004; Hisrich et al., 2005; Knyphausen-Aufsess and Bieger, 2006; Irawanto, 2006). People often referred to new product development whenever a word “innovation” is mentioned. At least, this is what most universities, including business schools, are mainly concerned about. Because this appears to be the main agreement toward innovation, courses and curriculums are targeted into product development systems, which gear more toward engineering perspectives. A popular diagram in management, often illustrates the funneling process, which starts from the top of the funnel, but ideas on

new products and services emerged from the bottom. In reality, this funneling process may have shown what is really happening. In today’s era, however, this funneling process may not be exercised, or even does not exist anymore.

Dauphinais and Price (1998) indicated that innovations are closely tied into long-term view of strategic outlook. Innovations are often performed by members of top management, which is in contradiction to the popular practice on brainstorming over variety of alternatives. This is logically true since a mere brainstorming with random people in any organizations may not reflect and/or otherwise support the strategic view on organizational objectives. This is to say that those people, who are usually involved with brainstorming sessions, may not have the strategic insights of the organizations. Thus, they may fail to relate the organizational core competencies with the strategic outlook of an organization.

Innovation cannot be considered as a mere outcomes of intelligent individuals. Rather, integrative approaches across divisions in an organization; from organizational strategies, to all departments, such as; research and development, finance, marketing, and production. The ability to manage intellectual and imagination in exploring options, and transform those imaginary ideas into marketable products and/or services, are the assimilated process toward successful innovation. The presence of technology provides an ample leverage toward innovation (Dauphinais and Price, 1998; Kotler, 2000; Burlton, 2001; Dunham

and Venkataraman, 2002; Galliers and Leidner, 2003; Garnsey et al., 2004; Haag et al., 2004; Hisrich et al., 2005; Yogaswara et al., 2005, Knyphausen-Aufsess and Bieger, 2006; Irawanto, 2006; Yogaswara et al., 2006). As in the previous factors above, entrepreneurs must constantly develop business plans as a way to incorporate innovation on the future product and/or services.

Choices of available variables include<sup>4</sup>; new designs, new colors, new packaging, new layouts, and new ventures. Such choices of variables are limitless, not only the categorical types of variables, which only have the ability to show responses of 1 or 2, for example, but should also include the “continuous” types of variables, such as; required funds toward realizing such innovative ideas onto the products and/or services, the sales of those new products and/or services, the profit margin of those new products and/or services, the discounts<sup>5</sup> of those new products and/or services, and the markups<sup>6</sup> of those new products and/or services.

Based on the initial empirical studies of “entrepreneurial research” in 2005 and “management audit” in 2006, it is expected that these variables were able to show the innovation, or otherwise referred to innovative efforts from the entrepreneurs. Internal data is

definitely used particularly to note the new designs, new colors, new packaging, new layouts, and ventures. Aside from the categorical types of variables, “continuous” types of variables are also incorporated to note the signals of innovation within an organization. These include; funds toward research and development, sales of new products and/or services, gross profit margin, markdowns and markups of those new products and/or services. When the figures on those variables increase, it is expected that the innovative efforts become prominent within an organization.

## Model

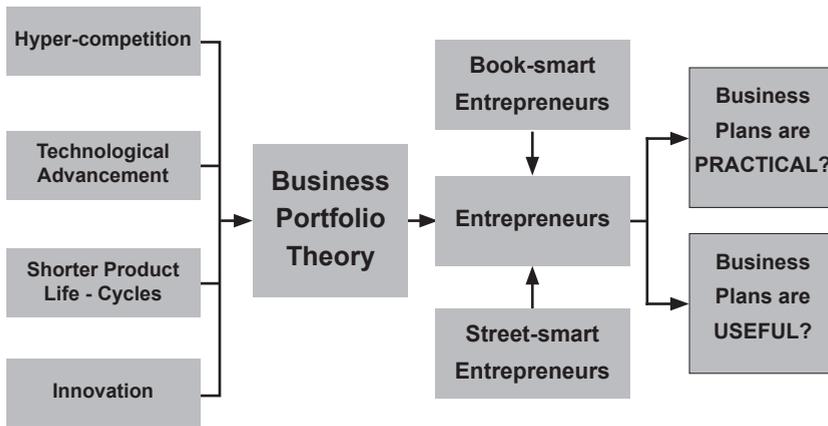
The model attempts to illustrate the four factors selected in relation with the business portfolio theory<sup>7</sup>, which may affect the relationships between the importance of structural business plans, and the practicality and usefulness of business plans for entrepreneurs of young organizations. The affecting factors in today’s business environment have provided substantial pressure on entrepreneurs in actually doing and performing their business operations. Nevertheless, despite those selected affecting factors, it is remained unclear whether business plans are both practical and useful

<sup>4</sup> As discussed by Dauphinais and Price, 1998; Stutely, 1999; Kotler, 2000; Burlton, 2001; Krug and Metha, 2001; Thurik and Wennekers, 2001; Yogaswara, et al., 2005; Yogaswara, et al., 2006; Anantadjaya and Nawangwulan, 2006.

<sup>5</sup> The application of discounts in new products and/or services indicates that an organization incorporates penetration pricing to introduce those new products and/or services into the market (Kotler, 2000; Ebert and Griffin, 2005).

<sup>6</sup> The application of markups in new products and/or services indicates that an organization incorporates price skimming to introduce those new products and/or services into the market (Kotler, 2000; Ebert and Griffin, 2005).

Figure 2. Business Portfolio Theory



for individual entrepreneurs in small and start-up companies. Particularly, this may be true once the responses from Respondents are integrated in the model as “book-smart” entrepreneurs and “street-smart” entrepreneurs. It is expected that the different categories of entrepreneurs as mentioned are able to reveal the different significance of usefulness and practicality of the business plans for entrepreneurs. Hence, this study attempts to analyze the connections and influences among chosen variables of;

- Hyper-competition to business portfolio theory
- Technological advancement to business portfolio theory
- Shorter product life-cycles to business portfolio theory
- Innovation to business portfolio theory
- Business portfolio theory to

entrepreneurs; both for the “book-smart” entrepreneurs and “street-smart” entrepreneurs.

- Entrepreneurs; both for the “book-smart” entrepreneurs and “street-smart” entrepreneurs, to the practicality and usefulness of business plans.

## Method and Data Analysis

### Overview of Studies

The studies incorporated a pool of only 50 entrepreneurs, whose businesses are still relatively young, and operate in the retail and service industries in Bandung and Jakarta. Those entrepreneurs are chosen due to previous acquaintances during prior studies. The products and services sold in those establishments

<sup>7</sup> The business portfolio theory assumes that individual entrepreneurs and organizational entrepreneurs are acting rationally. It means that business portfolios are compiled together to achieve the maximum level of returns, or otherwise refer to as “profit maximizing”, or “least-cost”. Thus, the conditions of hyper-competition, technological advancement, shorter product life-cycles, and innovation are likely to force entrepreneurs to think creatively and instantaneously modify their business portfolios in such a way that keep operational activities against the odds. At the very least, entrepreneurs must be concerned with the attempts on maximizing the organizational economies of scale, or the economies of scope, or even both (Besanko, et al., 2000).

Tabel 1. Reliability Statistics

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.001	.678	30

Tabel 2. Case Processing Summary

Case Processing Summary			
		N	%
Cases	Valid	50	94.3
	Excluded <sup>(a)</sup>	3	5.7
	Total	53	100.0

<sup>(a)</sup> Listwise deletion based on all variables in the procedure.

range from bakery/cakes, hair-dressers, barbershop, laundry/dry cleaning, delivery/courier, copy center, phone booths/kiosks (*wartel*), computer/internet rentals (*warnet*), cellular phone vouchers, snacks, garment, textile, and tutorial centers for computer and language training (*kursus/bimbel*). About 60% (sixty percent) of those entrepreneurs are located in Bandung, and the remaining 40% (forty percent) is in Jakarta. There were no significant differences in the demographic or responses regardless of the industries. Thus, despite of the specificity of the business forms of those entrepreneurs, as mentioned above, their responses are combined. Since the preliminary studies have been done since 2005, but without the development of analytical papers, such studies are documented and used as references for the further development of this paper. In particular, the preliminary research, which included data, findings, and results of quantitative analysis, were mainly used (Yogaswara et al., 2005; 2006).

### Design and Procedures

All participants were distributed a set of questions regarding the 4 (four) affecting factors discussed above. Few preliminary statistical analyses are processed using SPSS 12.0. The reliability analysis on the data indicates that out of 50 Respondents in the studies, about 94 percent of the data are considered valid. The reliability statistics indicate that the data are considered 68 percent reliable. Though the reliability statistics appear to indicate an acceptable degree of reliability, it is only marginally sufficient to satisfy the significance level on dependency. Since the results concerning descriptive statistics indicate that there are a large variability in terms of the scaling on the original data, a standardization process on scaling is deemed necessary. Standardized Z-scores are used in further analysis.

### Factor Analysis

Based on the studies and the numbers of variables used, the communalities table indicates that the variations on each of the variables appear to be significantly, or slightly

more than 0.5<sup>8</sup>. This means that significant amounts of variations are explained by the formation of factors. Nevertheless, a closer look into the communalities table indicates that the formation of the factors is able to explain only a small portion<sup>9</sup> of variations on several variables. Those variables are “interest rates on loans” (23 percent), “interest rates on deposits” (27 percent), “purchases of hardware” (48 percent), “expenses on software purchases” (25 percent), “days on new product packaging” (36 percent), “days on new services” (43 percent), “sales promotional activities” (39 percent), and “sales on new products/services” (43 percent).

The KMO and Barlett’s Test indicates an adequacy measurement of 0.574. Though the result does not indicate a substantially high adequacy level as expected, this implies that the sampling was relatively adequate for further testing. Referring to the component

transformation matrix table, it shows that the data can be reduced into four factors, which in essence seems to be following the initial expectation to relate to the four affecting factors of hyper-competition, technological advancement, shorter product life-cycle, and innovation. However, though the component transformation matrix seems to support the expectation of the affecting factors, it does not fully conform to the rotated component matrix<sup>10</sup>. There are variables, which appear to be located in the gray areas, namely “marketable securities”, “R&D”, “price bundling deals”, and “price level on similar products”.

Further analysis indicates that the formation of factors does not fully conform to the rotated component matrix even when there is only one factor<sup>11</sup>. This shows that the characteristics of those variables are not significantly different from each other to be put into four

Tabel 3. KMO and Barlett’s Test

<b>KMO &amp; Barlett’s Test</b>	
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	<b>.574</b>
Bartlett’s Test of Sphericity	845.290
Approx. Chi-Square	
Df	325
Sig.	.000

<sup>8</sup> This is true for only a handful of variables, such as; IHSG index (73 percent), expenses on internet (73 percent), marketable securities (71 percent), days on new flavors (73 percent), R & D (72 percent), and inflation rates (80 percent).

<sup>9</sup> A small portion means less than 0.5.

<sup>10</sup> See Appendix 1.

<sup>11</sup> The formation of that one factors is able to explain only a small portion of variations on several variables.

different categories as expected<sup>12</sup>. Since the statistical results do not show substantial/acceptable supports on the formation of four factors, as described above, the pre-determined connections and influences are not supported as well. Therefore, the following inferences can be drawn;

- Statistically, there is no connection and influence of “hyper-competition” to “business portfolio theory”.
- Statistically, there is no connection and influence of “technological advancement” to “business portfolio theory”.
- Statistically, there is no connection and influence of “shorter product life-cycles” to “business portfolio theory”.
- Statistically, there is no connection and influence of “innovation” to “business portfolio theory”.
- Since statistically there are no connections and influences of “hyper-competition”, “technological advances”, “shorter

product life-cycles”, and “innovation” to “business portfolio theory”, it can be inferred as well that statistically there is no connection and influence of “business portfolio theory” to “entrepreneurs”.

- Since statistically there is no connection and influence of “business portfolio theory” to “entrepreneurs”, it can be inferred as well that statistically there is no connection and influence of “entrepreneurs” to the “practicality of business plans”, and “usefulness of business plans”.

Therefore, as the statistical results fail to provide sufficient basis toward justifying the formation of the expected factors, further qualitative analyses toward the respondents’ responses during interviews are built-in into this paper. It is expected that those direct responses from respondents may bring about adequate basis toward justifying the

Table 4. Component Transformation Matrix

Component Transformation Matrix				
Component	1	2	3	4
1	<b>.867</b>	.380	.318	-.046
2	-.314	<b>.918</b>	-.241	.018
3	-.374	.108	<b>.910</b>	.143
4	-.100	.015	.113	<b>-.988</b>

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.

<sup>12</sup> The similar characteristics of those variables may be due to the smallness of only fifty Respondents. Since those Respondents are mainly the entrepreneurs of young organizations, and they are acting as owners/managers, the distinctions between individuals’ transactions are not significantly different from organizational transactions. For instance, purchases on hardware or software in those young organizations may not be fully utilized toward the benefits of the organizations. Frequently, such purchases on hardware or software are initiated by the entrepreneurs themselves for their own benefits. The same is true for expenses on internet and web. Statistically, it is unclear whether such expenses are organizational type of expenditures.

formation of the expected factors toward the development of structural business plans for entrepreneurs.

### **Qualitative Studies**

As previously stated, since the statistical results are unable to provide satisfactory evidence that the four affecting factors do have substantial impacts on business portfolio theory for both individual entrepreneurs and organizational entrepreneurs, the qualitative studies are subsequently performed. Since this is the case, a total of 30 interview questions are used. These questions are pertinent to the listed questions used in previous questionnaires. In-depth and rigorous interview sessions with the 50 chosen Respondents are performed to reveal the differences among the questions toward justifying the entrepreneurs' attitude and behaviors toward the structural formulation on business plans. The findings based on interview sessions<sup>13</sup> are discussed below.

## **The Four Affecting Factors**

In general, Respondents indicated that the four affecting factors on hyper-competition, technological advancement, shorter product life-cycles, and innovation should impose potential threats on the viability of the business activities. However, due to the current size of

the business operations, the degree of impact of those four affecting factors are not yet substantial for those Respondents to start worrying. Although many Respondents are aware of the topic on each of the questions, many are unable to classify each question to the four affecting factors used in this study. Similar to the quantitative results, this qualitative study fails to reveal the connections of the four affecting factors to the concepts on formation of business portfolio theory by Respondents. Therefore, those four affecting factors are considered insignificant toward the completion of this study. Thus, those factors are dropped from this study.

## **Entrepreneurial View**

In general, Respondents indicated that the field of entrepreneurship commonly directs participants to start changing their point of perspectives on looking into the business world. Respondents stated that the term "entrepreneurship" is supposed to challenge individuals onto taking a different angle toward viewing at various things. A valuable issue to note is certainly the long-shot view for entrepreneurs, as compared to the short-sighted view of non-entrepreneurs toward business operations. Another important issue to bring up is certainly the actual process of doing entrepreneurship.

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<sup>13</sup> Following the completion of the questionnaires, the interview sessions were held with the same respondents. These interview sessions were intended to note the reasons toward each of the questions. For example, the interview sessions were beneficial to record the entrepreneurs' reasons on sales, interest rates, exchange rates, and other questions as a measurements toward the four affecting factors of hyper-competition, technological advancement, shorter product life-cycle, and innovation. Each of the interview sessions last approximately two hours.

Respondents indicated that entrepreneurs are mostly concerned with the strategic horizon over a long period of time. This perspective is no match to managers, who are trying to also formulate planning and projections toward future states. This point is confirmed by Ebert and Griffin (2005), in their discussions on strategies and planning. Entrepreneurs are more likely thinking in terms of corporate strategies and strategic planning whenever they are mapping out their views. This is confirmed by the interview sessions with 50 (fifty) Respondents, as documented in the studies by Yogaswara et al., (2005), and Yogaswara et al., (2006), which indicated that entrepreneurs are owners of organizations; many are holding top managerial positions as well. As owners/managers of an organization, logically, those entrepreneurs position themselves as top managers. This top position forces them to think and act using a broad-corporate-view.

In contrast to the long-term view of entrepreneurs, as indicated by the Respondents, professional managers<sup>14</sup> are leaning more toward the use of business strategies and tactical planning whenever these managers are putting out their

thoughts. This represents a medium-term view into looking the business horizons. The more junior managers, nevertheless, tend to use functional strategies and operational planning in doing their formulation toward work agendas. This represents a short-term view into looking the business horizons. These differences in long-term views and actual realization of those views are often missing between entrepreneurs and managers.

## Entrepreneurial Category

The interview sessions also reveal the following findings on entrepreneurship. Generally, respondents suggested that there are two types of entrepreneurs; the “street-smart” entrepreneurs, and “book-smart” entrepreneurs, which covers those entrepreneurs with formal education only<sup>15</sup>, and those entrepreneurs with formal education, and years of experience at organizations<sup>16</sup>, prior to setting-up their business establishments (Yogaswara et al., 2005).

Respondents indicated that the “street-smart” entrepreneurs refer to those people who have involved

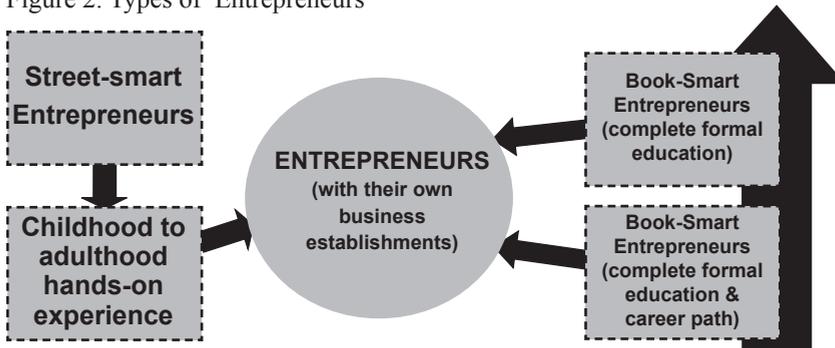
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<sup>14</sup> The term “professional managers” refer to those individuals, who have no family relations to the entrepreneurs, and were hired/employed based on their experience, skills, and expertise. These types of individuals work in accordance with the prescribed job descriptions, which are likely to include targets and objectives for a certain period of time.

<sup>15</sup> This refers to those “book-smart” entrepreneurs, who have completed their formal education prior to setting-up their business establishments.

<sup>16</sup> This refers to those “book-smart” entrepreneurs, who have completed their formal education and gained experience from other organizations first, prior to setting-up their business establishments. It means that this type of entrepreneurs decided to have some sort of career path at other organizations. Once these entrepreneurs are confident that they have sufficient experience and competence in business handlings/dealings, they decide to open-up their own business.

Figure 2. Types of Entrepreneurs



Source : Yogaswara et al., (2005)

in the daily business operations since childhood. These people were very much used to with the working environment. Most of them have early starts, which are continued until they reached adulthood. By the time they can make up their minds, they often continue dealing with the business operations they have already familiar with. This type of entrepreneurs develops their business skills and competence through constant informal-on-the-job training since childhood. Thus, formal educational background may not directly affect the ability of this type of entrepreneurs, in creating new businesses, expand their businesses, or even sustain their business establishments into the future. Such responses correspond to the entrepreneurial school of thought, whereby business plans seem to be single-mindedly envisioned (Mintzberg et al., 1998).

The “book-smart” entrepreneurs are those people who have involved in the business operations alongside with their formal education. According to the respondents, it is believed that there are two more sub-categories for these “book-

smart” entrepreneurs. They are those entrepreneurs who have decided to complete their formal education prior to setting-up their own businesses, and those entrepreneurs who have completed their formal education, and decided to have some career paths in organizations prior to setting up their own business establishments.

The respondents indicated that the type of entrepreneurs directs the likelihood of formulating formal business plans. The “book-smart” entrepreneurs are the ones with great tendencies to develop formal business plans. On the other hand, the “street-smart” entrepreneurs are the ones with minimal tendencies to develop formal business plans. The latter group of entrepreneurs is confident that business operations are not merely based on documentation, but more on trust. Thus, the latter group of entrepreneurs prefers to spend time getting to know their counterparts rather than spending time developing business plans behind the desk. However, regardless of the substantial differences of entrepreneurs, class discussions on the topic of entrepreneurship, frequently overlook such dissimilarities.

## Views on Business Plans

This section will focus on importance of the development of business plans from both perspectives; the “book-smart” entrepreneurs and “street-smart” entrepreneurs. The following discussions are based on the interview sessions with respondents.

### *Book-Smart Entrepreneurs*

There are references on formulation and development of business plans. One book, in particular, seems to stand-out more than others. On his book, Stutely (1999) indicates that managers often face uneasy situations when they have to submit business plans. Managers and busy executives are repeatedly squeezed in timing to come up with a business plan immediately. Respondents indicated that this type of entrepreneurs are putting more focus into developing the correct and appropriate business plans in such a way, rather than concentrating on the implementation of those plans.

This type of entrepreneurs uses business plans as a way to monitor the realization of those plans. At least, this is what the “book-smart” entrepreneurs lay their beliefs on. These “book-smart” entrepreneurs are confident that without a proper business plan, entrepreneurs are lost in doing their actual operational activities. Losses are likely to follow. Banks and financial institutions represent the majority in favor of the formulation of business plans. Without a proper business plan, it is impossible for any business dreams to be financed by banks and financial institutions. Financing from banks

may not be a hurdle for “book-smart” entrepreneurs as they tend to be accustomed to the structural format of a business plan.

Nonetheless, respondents stated that proper formulations of business plans are relatively time-consuming. Often, business plans are prepared as a mere formality toward credit applications and documentation purposes only. With limited time and budget, business plans may not adequately prepared to support the establishments and realizations of business operations in the future. Thus, the effectiveness of business plans is questionable.

### *Street-smart Entrepreneurs*

Talking about the “street-smart” entrepreneurs, however, this group of people is not using the structural format of business plan as discussed above. As stated earlier by respondents, these people are involved in the business operations since childhood. They have received hands-on experience directly from the field of business practices. They have known such practices by heart, as a result. These “street-smart” entrepreneurs have certainly built their confidence toward the practicality of doing business transactions. Thus, one reason seems to be obvious, that is, they may not know the structural steps on formulating the business plans, or they may not want to accustomed themselves toward using the structural steps on formulating the business plans.

Respondents pointed out that the “street-smart” entrepreneurs tend to use financial planning in their journeys. Unlike the “book-smart” entrepreneurs, these “street-

smart” entrepreneurs incorporate unstructured financial plans in their calculations toward realizing their objectives. That is, they are putting general calculations in scratch papers as a way to figure out the required capital prior to establishing their business operations. This type of entrepreneurs view business plan as a time-consuming activity. They believe that taking time in formulating a proper business plan will significantly delay decision-making, and cause them to miss out the opportunities to market products and services. These people believe that business decisions on various opportunities ought to be taken immediately. Sometimes, business decisions may have to be taken so quickly without thorough calculations and analyses. This is one reason why entrepreneurs receive rejections from banks and financial institutions to approve financial assistance on their business operations.

## **Business Plans for Entrepreneurs**

### **Practicality of Business Plans for Entrepreneurs**

Referring to the first inquiry of whether or not business plans are practical, qualitative studies indicated that formulations of business plans are considered impractical for many entrepreneurs in small and start-up companies. This is true for both groups; the “book-smart” and “street-smart” entrepreneurs.

### ***Book-smart Entrepreneurs***

The former group often faces tight deadlines in coming up with the necessary business plans. Background checking and research may not be sufficient given the tight deadlines. The “book-smart” entrepreneurs are confident that business plans are not only lacking substantial issues, but also short in understanding on the specificities of the general business environment and the industry atmosphere. Current issues are frequently left behind due to inadequacies of readily available resources and relevant sources on the particular business settings concerned. The intricacies of obtaining reliable and relevant sources are often creating additional hurdles to successfully develop acceptable business plans.

### ***Street-smart Entrepreneurs***

The latter group perceives business plans as unnecessary stepping-stone toward business deals. In other words, the “street-smart” entrepreneurs regard business plans as a mere of formality to be submitted to financial institutions in case of filing credit applications. In this instance, business plans are only used toward satisfying the documentation requirement prescribed by the financial institutions. Upon field-checking, although those documentations are verified, however, the assessors often pay a lot more attention toward the real activities during the normal business hours, including verifications on receivables and payables of the organizations, and how the organization conduct

their regular activities. In short, the development and submission of business plans do not have a direct connection with approvals of credit and the viability of the organizations. Assumptions used in developing the business plans are regularly insubstantial. Interest rates and exchange rates are just two examples, which are insubstantially referenced. This may well be due to the fluctuations of values between the Indonesian rupiah as compared to other foreign currencies.

### **Usefulness of Business Plans for Entrepreneurs**

Referring to the second inquiry of whether business plans are useful, qualitative studies indicated that it is true for the “book-smart” entrepreneurs, but may not be true for the “street-smart” entrepreneurs.

### ***Book-smart Entrepreneurs***

For the “book-smart” entrepreneurs, business plans are deemed necessary to provide directions toward successful business operations. Through business plans, the “book-smart” entrepreneurs believe that the business paths have been drawn into years to come. By conforming and following such paths, the going-concern of business is somewhat assured. Besides, through the development and preparation of business plans, the “book-smart” entrepreneurs are forced into reading, researching and learning about the reality of the business environment that they are trying to engage. The comprehensive business plans are able to push these “book-smart” entrepreneurs to really study the intricacies of

doing the actual business, not only the marketing activities, but also planning, organizing, directing, and controlling the business dealings.

### ***Street-smart Entrepreneurs***

On the other side of the coin, however, formulations of business plans are considered useless for “street-smart” entrepreneurs. Formulations of business plans only delay business decisions. Formulations of business plans cause “street-smart” entrepreneurs to miss-out numerous business opportunities. For this type of entrepreneurs, business plans only consist of financial planning in order to “map-out” the possibilities of cash flows; both inflows and outflows. All other defined managerial roles on planning, organizing, directing and controlling are considered irrelevant to be included in business plans. For this type of entrepreneurs, once parties understand and mutually agree upon the terms and conditions of cash flows, other defined managerial roles are left untouched. These entrepreneurs tend to pay a great deal of attention toward money cycles – the faster the cycle moves, the happier they become.

## **Conclusions**

From the perspective of quantitative study, though there were some correlations on some of the variables, the proposed model on this study was lacking substantial statistical supports. The factor analysis is unable to provide adequate support of the formation four affecting factors of hyper-competition, technological advancement, shorter product life-

cycle, and innovation, and their relationship to the formulation of business portfolio theory. As discussed previously in the section on quantitative study, it can be concluded that there is no connection and influence of “hyper-competition”, “technological advancement”, “shorter product life-cycles”, and “innovation” to “business portfolio theory”. Also, since statistically there are no connections and influences of “hyper-competition”, “technological advances”, “shorter product life-cycles”, and “innovation” to “business portfolio theory”, it can be inferred as well that there is no connection and influence of “business portfolio theory” to “entrepreneurs” statistically. Since statistically there is no connection and influence of “business portfolio theory” to “entrepreneurs”, it can be inferred as well that statistically there is no connection and influence of “entrepreneurs” to the “practicality of business plans”, and “usefulness of business plans”. As these are the case, those affecting factors are dropped from the analysis.

From the perspective of qualitative study, however, it can be concluded that the practicality and usefulness of business plans for entrepreneurs in young organizations are questionable. Qualitative study also fails to reveal the rationale on the formation of the four affecting factors. Thus, the impact of

hyper-competition, technological advancement, shorter product life-cycle, and innovation are relatively indecisive. Fortunately, not only that the interview sessions generate a segregation of entrepreneurs; nonetheless, the street-smart entrepreneurs, and the book-smart entrepreneurs, but the interview sessions are also able to extract rationale behind the responses from each of the Respondents. Though these categories of entrepreneurs are noted, the qualitative study fails to satisfactorily reveal any connections between the role of business plans and the real action plans taken by entrepreneurs. With regards to the 50 samples used in this study, the interview sessions were able to learn that only about 20 percent of Respondents considered themselves as book-smart entrepreneurs. Out of the 20 percent book-smart Respondents, 5 Respondents stated that they have spent time in trying to formulate and develop business plans although such business plans were never formally completed and/or otherwise submitted to any third parties. These findings are very much relevant to the entrepreneurial school of thought, which found out that 41 percent founders of the fastest growing firms in the US had no business plan at all, five people had actually worked up financial projections, and only 28 people had actually written a complete business plan<sup>17</sup> (Mintzberg et al., 1998).

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<sup>17</sup> This refers to the study by Amar Bhidé in 1994, which conducted interviews with 100 founders of the fastest growing firms in the US. Most entrepreneurs did not seem to be bothered with well-developed and well-formulated business plans since they have to deal with the constant changing of the business natures, and particular niches that tend to frighten established firms. Thus, in such a situation, entrepreneurs' ability to throw the actual punch was much more important than cautious planning. Otherwise, entrepreneurs would lose their first chances, and would have to start defending themselves against the big players (Mintzberg et al., 1998).

Though business plans are vigorously studied in higher education, entrepreneurs are not using business plans as their guidance toward establishing their business operations. More often, entrepreneurs rely on their intuition and cognitive abilities in “feeling-out” the potential business deals. Higher education institutions may have to draw the connection much closer between business plans and entrepreneurs, in particular the practicality and usefulness of such business plans for entrepreneurs. Such approaches include; limiting the inexperienced lecturers<sup>18</sup> to handle entrepreneurship classes, inviting entrepreneurs as guest speakers in various class subjects, inviting entrepreneurs as lecturers for any entrepreneurship classes, as well as forcing existing lecturers to participate in real-business environments through projects, research, and consulting appointments. Though these

approaches may not guarantee the immediate success of bridging the gap between entrepreneurs and the study of structural business plans, it is expected that as the quality of lecturers is improved, the quality of study materials is also enhanced.

For further studies, since the quantitative research in this study was not able to provide substantial evidence, it is suggested that incorporation of additional variables are certainly beneficial to provide a much more solid reasoning. Such additional variables may include the following, but not limited to; industry sectors, experience of entrepreneurs, different cities or towns, genders of entrepreneurs, educational level of entrepreneurs, variety of products and services offered, profitability, sales, turnovers, receivables (long and short-terms), payables (long and short-terms), and various of financial ratios, for instance. Aside from the additional variables, more respondents are certainly advantageous.

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<sup>18</sup> Inexperienced lecturers are referred to those lecturers without hands-on experience as entrepreneurs. This increases complexities for the educational institutions since those entrepreneurs may not be interested in becoming lecturers, not only for the time commitment for the semesters, but also for the total wages received as lecturers may be insufficient to compensate for their time and efforts. The total compensation received as entrepreneurs may well be much higher than the package received in universities. The rules and regulations of the Ministry of Education may also hinder the involvements of entrepreneurs in classrooms. This may be due to the lack and/or otherwise inadequate educational degrees for those entrepreneurs to start taking up roles as lecturers. It is ambiguous whether entrepreneurs’ hands-on experiences are regarded as less proficient to academic degrees. In other words, it is rather contradictory that entrepreneurs’ hands-on experiences are not valued as much as the academic degrees. It should have been complimented each other. Entrepreneurs could actually participate in classrooms’ discussions by bringing up current issues and problem-solving exercises, for instance, and academicians could provide the theoretical foundations and systematic approaches.

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**Sam PD Anantadjaya** (bmw@bdg.centrin.net.id) is the senior advisor for ETC & Foundation. It is an organization which actively involves in providing English proficiency training (under the name of “English Tutorial Center”, and “billy”), and management/market research, including organizing various soft-skills seminars, training and workshops. He is the owner of a clothing store “big MOM & ME” in Bandung, Indonesia, and a laundry/dry-cleaning services “TEDDY binatang<sup>®</sup>” in Jakarta, Indonesia. His research interests are mainly in the area of strategic management, particularly on various organizational intangible assets. During his study, he has received numerous awards and recognitions, such as; Academic Achievement Award, Dean’s List, Wall Street Journal Student Achievement Award, and George W. Milne Merit Banking Scholarship from Norwest Bank of La Crosse, Wisconsin, USA.

## Appendix 1. Rotated Component Matrix

<b>Rotated Component Matrix<sup>(a)</sup></b>				
	Component			
	1	2	3	4
Zscore: Average Sales (Rp/mo)	.475	.009	<b>.580</b>	-.063
Zscore: Interest Rates on Loans (%/year)	<b>.408</b>	.138	-.136	.160
Zscore: Interest Rates on Deposits (%/year)	-.152	-.016	-.030	<b>.496</b>
Zscore: Exchange Rates (Rp/USD)	<b>-.664</b>	-.133	-.143	-.146
Zscore: IHSG Index	-.373	<b>-.763</b>	.091	-.013
Zscore: No of Substitutes (# of units)	.287	.324	-.278	<b>.554</b>
Zscore: Price Levels on Similar Products (Rp/unit)	<b>.504</b>	<b>.552</b>	-.154	.180
Zscore: Purchases of Hardware/year (Rp)	-.088	.249	<b>.551</b>	.328
Zscore: Expenses on Internet (Rp/mo)	.211	-.117	<b>.805</b>	.156
Zscore: Expenses on Web (Rp/year)	-.033	-.082	<b>.743</b>	.070
Zscore: Expenses on Software Purchases (Rp/year)	.016	-.093	.147	<b>.472</b>
Zscore: Days on New Product Design (# of days)	<b>.598</b>	-.428	.100	-.277
Zscore: Days on New Product Packaging (# of days)	<b>-.517</b>	.038	-.244	-.181
Zscore: Days on New Services (# of days)	<b>.592</b>	.241	.105	-.094
Zscore: Days on New Flavors (# of days)	<b>.752</b>	-.061	.300	-.261
Zscore: Days on New Colors (# of days)	<b>.751</b>	-.043	.057	-.210
Zscore: Price Bundling Deals (# of bundles)	<b>.632</b>	.037	<b>.504</b>	-.181
Zscore: Sales Promotional Activities (Rp/year)	-.297	<b>.527</b>	-.007	.144
Zscore: Sales Growth (%)	<b>-.739</b>	.189	.184	-.085
Zscore: R & D (Rp/year)	<b>.588</b>	<b>.562</b>	-.219	.079
Zscore: Sales on New Products/Services (Rp/mo) - 1st mo	.071	.370	.205	<b>.496</b>
Zscore: Gross Profit Margin on New Products/Services (% of sales) - 1st mo	.168	<b>.697</b>	.276	-.093
Zscore: Markdowns on New Products/Services (%) - 1st mo	-.052	<b>.649</b>	.071	-.452
Zscore: Markups on New Products/Services (%) - 1st mo	.010	.256	-.098	<b>-.663</b>
Zscore: Inflation Rates (%/year)	-.197	<b>.842</b>	-.201	-.107
Zscore: Marketable Securities (%/year)	.036	<b>.604</b>	<b>.537</b>	-.225

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

<sup>(a)</sup> Rotation converged in 12 iterations.

