FACTORS IMPACTING LOW INCIDENCE OF FORMALIZED STRATEGIC PLANNING IN MICRO-BUSINESSES.

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This dissertation, written by

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ABSTRACT

FACTORS IMPACTING LOW INCIDENCE OF FORMALIZED STRATEGIC PLANNING IN MICRO-BUSINESSES.

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A company's size, measured by its number of employees, is positively associated with the existence of a formalized strategic planning at the company. While the existing literature has established that some small companies (about 20 percent) formally plan on a regular basis, the literature does not provide any empirical demonstration of factors that impact incidence of formalized strategic planning. The present study examines two factors that impact the practice of formalized strategic planning among micro companies. These two factors are (a) necessity (the need for outside funding), and (b) clarity (the expression of purpose and shared values through a mission statement for the company). The present study analyzed responses from 228 micro businesses that are members of the San Rafael, California Chamber of Commerce. Micro businesses are companies with 25 employees or less. The present study demonstrated correlation between a company's size and the need for outside funding, as well as between the need for outside funding and incidence of formalized strategic planning. In addition, the present study demonstrated a correlation between a company's size and the existence of a value system, and between the existence of a value system and incidence of formalized strategic planning in micro companies.

CHAPTER 1 - INTRODUCTION

Overview

The size of a company, measured by the number of its employees, is positively associated with incidence of formalized strategic planning at that company (Gibson and Cassar et al, 2002; Orser et al, 2000; Matthews and Scott, 1995). This important finding is the embarkation point of the present study, which explores two specific mediating variables (necessity and clarity) and their impact on the relationship between a company's size and incidence of formalized strategic planning.

The consensus among researchers in this field of study is that although smaller businesses are less likely to be involved in formalized strategic planning, some small businesses - businesses with up to 500 employees (SBA, 2006) - do formally plan. The focus of the current study is on a sub-segment of the small business category, which is micro businesses. Micro businesses are companies with 25 employees or less in the US (SBA 2005), or ten employees or less in Europe and Australia (Gibson & Cassar et al 2002; Cowling, 2003; Friar & Meyer, 2003).

Gibson and Cassar et al. (2002) who studied 3,554 small businesses over a period of three years (1995, 1996 and 1997), revealed that 18.9 percent of the small businesses practiced strategic business planning on a regular basis (every year of the three-year study), while 31.97 percent of the participating small businesses planned at least once during the three-year study. The Gibson study included companies ranging in size from 1 to 200 employees however, and does not provide specific breakdown of companies' sizes. Thus, according to the Gibson and Cassar et al study, about two of ten small businesses do plan on a regular basis, and three of ten small companies on an occasional basis. This finding begs the question: What makes some small businesses plan while others do not?

An examination of the existing literature reveals a knowledge gap in factors that impact the relationship between a company's size (number of employees) and incidence of formalized strategic planning in the context of micro businesses. A formal strategic plan is one that involves explicit and systematic procedures used to gain the involvement of those affected by the plan, and the plan needs to be long term and in writing (Pearce et al (1987); Bracker, Keats and Pearson (1986). There are two aspects to the knowledge gap in the current literature. The first aspect is the lack of empirical exploration of the factors that impact the relationship between a company's size and incidence of formalized strategic planning. The literature does provide us with some explanation of possible influencing factors, but there is no empirical data to support or dispute these explanations. For example, when Gibson & Cassar (2002) discusses the necessity factor – which reflects the need of small businesses for funding from outside sources - they state that "when a firm is attempting to gain extra debt or equity financing, it may be encouraged to prepare a business plan to legitimize the request." Similarly, according to Singhvi (2000), every micro business is in need of raising capital, and to do so means that micro companies often have to prepare strategic plans. One subject in the Greenbank (2000) study indicated that: "I did the plan to get the loan. I never actually referred to it at all ... It was just a means to get something, yes, because if you go in and tell somebody an idea they ask for it in writing, you know, so it was just a means to get what I wanted..." Additionally, Peyrefille (2006) states that mission statement development is widely considered to be the first step in strategic planning and the basis or starting point for all activities in formulating strategies. The same notion is provided by Arend (1994), who states that mission statements are the framework in which all strategic decisions are made, or should be made. In other words, they are an essential part of strategic planning.

The second factor in the knowledge gap of the existing literature is the size range of "small" businesses. The official definition of a small business in the US is "a company employing 500 or less employees" (SBA 2006), and in Europe and Australia the guideline is 250 employees or less. According to the SBA (2006), there are approximately 25.8 million businesses in the US, of which 99.7 percent are small companies (500 employees or less). Of the 25.8 million businesses, 18.6 million are non-employer companies (companies with no employees). In addition, the SBA (2006) reports that there are 5.7 million firms in the US with a payroll; of these 4.3 million firms have less than 20 employees. Therefore, combining the 18.6 million non-employer companies with the 4.3 million companies with less than 20 employees provides us with an approximate figure of 22.9 million companies (88.7 percent) that classify as micro-businesses.

The wide-range of company size in previous studies on this subject makes it harder to isolate and identify variables that may have some correlation to formalized strategic planning. For example, in his study, Gibson & Cassar et al (2002) provide figures of planners (companies that plan) and nonplanners (companies that do not plan) over a three-year period. However, the study does not provide any indication whether the planners consist mostly of small companies with a handful of employees or hundreds of employees. This gap can be closed by narrowing the scope of the study to micro businesses, which are companies with 25 employees or less in the US (SBA 2005), or ten employees or less in Europe and Australia (Gibson & Cassar et al 2002, Cowling, 2003, Friar & Meyer, 2003).

This Study

The present study explores the relationship between the size of a company (capacity) and the existence of a formalized strategic plan by examining two variables: necessity and clarity. These two variables mediate between the size of the company (IV) and incidence of formalized strategic planning (DV). The present study hypothesizes that necessity and clarity are positively associated with the size of the company, and hence the incidence of formalized strategic planning.

The present study was conducted with a sample consisting of members of the San Rafael Chamber of Commerce, located in San Rafael, California. This sample was selected for three main reasons. The first reason is that 89 percent (728 companies) of the membership consists of micro businesses with 25 or less employees. Such concentration of micro businesses provides an opportunity to test the hypotheses with a group consisting mostly of micro businesses.

The second reason this sample was selected for the present study is that the membership of the San Rafael Chamber of Commerce consists of a wide range of industry categories. Currently there are about 150 industry categories and sub categories in the listing of the San Rafael Chamber of Commerce. Such a wide distribution of industry categories will provide richer data on the relationship between capacity, necessity, clarity and strategy across many industry categories.

The third reason that the membership of the San Rafael Chamber of Commerce was selected as a sample for the present study is the response rate to surveys. In past surveys that the Chamber of Commerce conducted, the response rate was about 40 percent, which will generate about 330 responses. The goal of the present study is to generate 228 valid responses, which is in line with similar studies done on this subject. For example, Bracker et al (1988), who conducted a survey of small businesses and the relationship between formalized strategic planning and financial performance, used a sample of 217 small businesses. In the O'Regan & Ghobadian (2002) study, a total of 194 valid responses were received - a response rate of 27 percent, and Matthews and Scott (1995) obtained their findings from 130 small businesses located in one United States city. In a study conducted by Stewart (2002), the units of analysis consisted of 100 small businesses within the Atlanta Metropolitan Statistical Area (MSA) of the state of Georgia. Additionally, French (2004), who used a random sample of 936 small businesses, achieved a response rate of 19.3 percent, with a final usable response rate of 17.9 percent.

An email invitation was sent to all members of the San Rafael Chamber of Commence (820 companies) urging them to participate in a short web-based survey. By clicking on a hyperlink in the invitation email, subjects were linked to the web survey. The survey consisted of about five questions pertaining to the four variables in the present study - capacity, necessity, clarity, and strategy. French’s (2004), questionnaire contained questions related to the strategic planning process.

Problem Statement

The problem in the literature is that there is no empirical data to suggest why some micro businesses plan, while others do not. There is ample empirical data (Gibson and Cassar et al 2002, Orser et al 2000, Matthews and Scott 1995) to support the proposition that about 18-20 percent of small companies plan on a regular basis, but nothing in the existing literature provides us with empirical data to suggest what differentiates "planners" from 'non-planners" in the context of micro companies.

The theoretical foundation of the present study is that the size of a company, measured by its number of employees, is positively associated with incidence of formalized strategic planning (Gibson and Cassar et al 2002, Orser et al 2000, Matthews and Scott 1995). This important finding provides a starting point for the present study because the knowledge that smaller companies (measured by number of employees) are less likely to be engaged in formalized strategic planning, allows the present study to test two variables that are proposed by the literature as factors differentiating "planners" from "non-planners" in the context of micro companies. These two factors are the necessity factor, and the clarity factor.

The necessity factor

Necessity, in the context of the present study, refers to the need of micro businesses to raise capital from outside sources in the form of debt or equity. The literature suggests that micro companies engage in formalized strategic planning when in need for outside capital. "When a firm is attempting to gain extra debt or equity financing, it may be encouraged to prepare a business plan to legitimize the request"

(Gibson & Cassar et al 2002). Capital is the lifeline of any business, but especially micro business, which does not have deep pockets. When all internal funding sources are exhausted, a micro business is forced to seek outside funding in order to succeed. According to Singhvi (2000), every micro business is in need of raising capital, and to do so means that micro companies often have to prepare strategic plans.

Although the literature supports the notion that micro businesses engaged in formalized strategic planning when in need for outside capital, the current literature does not provide any empirical data to support this proposition. Therefore, the present study will enhance the knowledge base in this field by providing empirical data pertaining to the impact that the need for outside capital (necessity) has on incidence of formalized strategic planning among micro companies.

The clarity factor

Establishing a clear purpose and a definite set of values for a company, in the form of a written mission statement, is the foundation of any formalized planning. Moreover, these specific values should be selected and defined by a formalized process. Here too, as in the case of the necessity factor, the current literature provides suggestive references to the link between company size (capacity) and the formation of a mission statement (clarity), and the existence of a formalized strategic plan. For example, David & David (2003) states that clear sense of purpose, consisting of the company's value system, is manifested in a written mission statement. Peyrefille (2006) suggests that a written (formal) mission statement is the foundation of a formalized strategic plan.

Because the current literature does not provide any empirical data to support the suggested link between capacity, clarity, and strategy, the present study will enhance the knowledge base in this field by providing empirical data pertaining to the impact that the existence of a written mission statement (Clarity) has on incidence of formalized strategic planning among micro companies.

Research Questions

Knowing that a company's size is linked to incidence of formalized strategic planning, and that about 18-20 percent of small companies formally plan on a regular basis, leads to two major issues that require further exploration. The first issue pertains to the mediating variables. In other words, are there mediating variables that impact the relationship between a company's size and incidence of formalized strategic planning? The second issue pertains to the degree of the "smallness" of the business. Would the relationship between a company's size and incidence of formalized strategic planning in micro companies be the same as it is with small companies? These two issues are reflected in the following research questions:

Research question 1

Is there a link between a company's size and its need for outside capital? This research question is designed to explore the relationship between Capacity (number of employees) and Necessity in the context of micro companies. The purpose of this question is to explore the possibility that as companies grow, and increase their number of employees (say from 1 to 15), they are more likely to need traditional (banks) outside capital, as opposed to credit card funding, which is one source of funding for very small companies. Data from the Small Business Administration (ABA 2006) indicates that the value and the number of the smallest size loans for micro businesses (under $100,000) remain difficult to interpret because of continued efforts by major small business credit card issuers to consolidate their data reporting.

Research question 2

Is there a link between the need for outside capital (Necessity) and incidence of formalized strategic planning (Strategy)? This research question is designed to explore the relationship between the need for outside capital and the development of a formalized strategic plan by micro companies. This purpose of this question is to provide empirical data to examine the indications in the literature that such a link exists. For example, Gibson & Cassar et al (2002), "when a firm is attempting to gain extra debt or equity financing, it may be encouraged to prepare a business plan to legitimize the request."

Research question 3

Is there a link between a company's size and the formulation of a mission statement? This research question is designed to explore whether the size of a company (Capacity) is linked to the explicit statement of a value system, which is manifested in the form of a written mission statement. In other words, are companies with more employees (say 10) more likely to have a written mission statement than a company with 2 employees?

Research question 4

Is there a link between the existence of a written mission statement (Clarity) and incidence of formalized strategic planning (Strategy)? The purpose of this question is to find out if a micro company, which has a defined purpose and value system (in the form of a written mission statement) is more likely to develop a formal strategic plan than micro companies that do not have a written mission statement.

The formation of a set of hypotheses, based on these research questions, will provide a foundation for an empirical exploration of the knowledge gap that currently exists in the literature on the relationship between a company's size and incidence of formalized strategic planning.

CHAPTER 2 - LITERATURE REVIEW

Overview of Strategy

Defining formalized strategic planning

While the link between company size and incidence of planning has been documented in the literature, the definition of “planning” remains an issue that needs further exploration (Mintzberg, 1981, Shyder, 1982). The existence of a documented plan and the sophistication of the plan are the most widely used dimensions of evaluating the formality of the plan. A formal strategic plan is one that involves explicit and systematic procedures used to gain the involvement of those affected by the plan (Pearce, E. Freeman, & R. Robinson, 1987).

The formality of the strategic planning system (the extent to which planning documents exist) has been the most widely used definition of strategic planning in the empirical literature (Matthews, 1995). Formal strategic planning conveys "that a firm's strategic planning process involves explicit systematic procedures used to gain the involvement and commitment of those principal stakeholders affected by the plan" (Pearce, Freeman, and Robinson 1987).

An analysis of the strategic planning literature conducted by Bracker (1986) reveals eight distinct components that constitute a strategic plan. These eight components are exactly the same used by Bracker in his study of 555 micro companies. Questionnaire respondents totaled 265 (47 percent response rate). The average age of the micro companies was 1.5-2 years in business, and the average number of employees was 20.78. Bracker’s eight components are: 1) Objective setting, 2) Environmental analysis,

3) SWOT Analysis, 4) Strategy formulation, 5) Financial projections, 6) Functional budget, 7) Operating performance measures, and 8) Control and corrective measures.

Bracker, Keats and Pearson (1986) devised a classification model for the sophistication level of strategic plans in small firms. Planning sophistication refers to the type of plans (i.e. environmental analysis vs. operational budget); to the formality of the plan (i.e. written vs. informal plans) and to the time frame the plans cover (i.e. long term vs. short term). Bracker, Keats and Pearson (1988) established three levels of planning sophistication: 1) structured strategic plans, 2) structured operational plans, and 3) unstructured plans. Bracker et al defines each of the strategic planning sophisticated levels as follows:

Structured Strategic Planning

Formalized, written long-range plans covering the process of determining major outside interests focused on the organization; expectation of inside interests, information about past, current, and future performance; environmental analysis; and determination of strengths and weaknesses of the firm, and feedback. Typically 3-15 years in nature.

Structured Operational Planning

Written short-range operation budgets and plans of action for current fiscal period. The typical plan of action would include basic controls such as production quotas, cost constraints, and personnel requirements.

Unstructured Planning

No measurable structured planning in the firm. The Bracker et al (1988) three levels of planning sophistication will be used as the instrument to measure the planning status of the subjects in the present study.

Strategic planning and micro companies

Strategy, in the context of the present study, refers to the existence of a formal strategic plan among micro businesses, which are small businesses with 25 or less employees. According to Ongunmokun (1996) "... Despite the high level of continuing interest in strategic planning, very little research has been done into the actual planning practices of small businesses." Most of the research undertaken to date in relation to small business has been either case studies or surveys directed towards identifying the value of planning and investigating the presence or absence of formal planning in small businesses (French 2004). There is little or no empirical research showing mediating variables that may have an impact on low incidence of strategic planning. Calls for improved and more extensive planning for micro companies are frequently cited in the literature. For example, Osbourne (1995) argued that the micro companies must first identify an opportunity and then create a marketing and financial plan to pursue this opportunity. Osbourne also maintained that only about one-third of start-up entrepreneurs create comprehensive marketing and financial plans, and those who do so increase the probability of venture success.

Herter (1995) agreed that every business, regardless of size, needs an effective, comprehensive business plan because the process of developing the plan forces even the micro business owner/manager to think about the harsh "reality" of the business world, rather than the more common dream world. He believed that strategic planning is a necessary and the first step toward success, and that it should have a well-defined format and parts. It should answer age-old questions such as where are you now, where do you want to be, and, most importantly, how are you going to get there?

Clayton (1996) took the requirement for strategic business planning in the small business sector even further with his belief that the lack of a strategic business plan in small businesses leads to outdated management practices, including an autocratic style of management practiced by the managing director or the proprietor. Business decision-making is affected because no one other than the managing director or proprietor can make a decision because other people in the firm do not know where the business is going or how it is going to get there. Consequently, the potential ability of human resources within the firm is undermined and underutilized.

The act of business planning can be regarded as closely aligned to rational decision making approaches. A wide range of writers have extolled the virtues of business planning. For example, Hingston (1993) argues that business planning is essential for even the smallest of firms: “One of the first steps in starting any new business should be the preparation of a strategic plan.”

In a further Australian study of strategic planning in small companies in Queensland, Glen and Weerawardena (1996) claim that there is an absence of theory or a consistent body of knowledge pertaining to micro-business strategic planning. They came to the conclusion that the majority of micro businesses do not engage in strategic planning (French 2004).

Strategic planning incidence among micro businesses

Firm size has long been considered an important influence on a firm's strategic processes (Matthews and Scott 1995); such processes would include planning. For example, Matthews and Scott state that researchers have found that as firms become larger they have "greater available resources and increased internal differentiation, which lead to increased planning" (Fredrickson and Mitchell 1984; Mintzberg 1973).

Conversely, relatively smaller firms have resource gaps, which may include lack of staff and expertise or time (Robinson and Pearce 1984). Risseeuw and Masurel (1994) observed that "the smaller the firm, the less effort it spends on planning" and confirmed the relationship when, after analyzing results of a survey of 1,211 real estate agents in the Netherlands, they concluded that "large firms plan more intensively than small firms". In addition, Glen and Weerawardena (1996) found an association between firm size and planning process sophistication.

The finding that about one-third of the surveyed businesses moved between planning and nonplanning is a major contribution from the Gibson study (2002). The results suggest that the incidence of planning may be overstated: although static results suggest approximately 35 percent of small firms are planners, only about half of these appear to be consistent planners (see table 2). That so many small firms change their planning behavior may imply that small firms use business planning for specific purposes that change over time (see Table 2). Particular environmental circumstances may have resulted in the desire to develop plans or forecasts during certain periods. For example, when a firm is attempting to gain extra debt or equity financing, it may be encouraged to prepare a business plan to legitimize the request (Gibson & Cassar et al 2002). These results highlight the complexity of understanding the factors differentiating between planning firms and nonplanning firms. Such an observation has significant implications for research on business planning. There is an implicit assumption in investigating relationships between business planners and nonplanners that small firms are either planners or nonplanners and do not move between the two states.

Table 1: Planning Incidence of Small Companies

	1995		1996		1997	
	Number	Percentage	Number	Percentage	Number	Percentage
Planners	1,132	31.9	1,327	37.3	1,240	34.9
Nonplanners	2,422	68.1	2,227	62.7	2,314	65.1
TOTAL	3,554	100.0	3,554	100.0	3,554	100.0

Note: Data for this table was obtained from Gibson (2002)

Table 2: Changes in Planning Incidence of Small Companies

	Number	Percent
Nonplanners (All Three Years)	1,746	49.13
Changed from Nonplanner to Planner	463	13.03
Changed from Planner to Nonplanner	355	9.99
Changed Status All Three Years	318	8.95
Planners Every Year	672	18.91
TOTAL	3,554	100.00

Note: Data for this table was obtained from Gibson (2002)

Measuring strategic planning

The widespread acceptance of strategic planning as a management tool is evidenced by the emergence of strategic planning departments, the growth in strategic planning staff, and the boom in strategic management consulting (Baker 2001). These trends have roughly paralleled the rapid development of the strategic management literature since about 1980, starting with the publication of Porter's widely cited book, *Competitive Strategy* (1980).

Boyd and Reuning-Elliott (1998) argue that inadequate measurement of the planning variable has been a major limitation in conducting empirical research on strategic planning. Specifically, they claim that the use of inconsistent terminology, the lack of agreement on the scope of strategic planning, and measurement problems have substantially limited researchers' ability to integrate empirical work and obtain consistent results. Because they have not consistently defined and measured the key strategic planning variables implies an attempt to alter a company's strength relative to that of its competitors (O'Regan & Ghobadian 2002).

Strategic planning focuses on the direction of the organization and actions necessary to improve its performance. It is the process by which firms derive a strategy to enable them to anticipate and respond to the changing dynamic environment in which they operate (Hewlett, 1999).

Strategic planning and micro-business performance

Traditionally, it has been assumed that micro businesses should use the same management techniques as their larger companies (Welsh & White 1981). However, research carried out on the relative effects of planning on the sales and profit performance of micro businesses has shown positive relationships between the planning function and sales/profits (Ackelsburg and Arlow, 1985; Bracker and Pearson, 1986; Jones, 1982; Schwenk and Shrader, 1993).

There are, however, ranges of issues that may confound interpretation of these results. These include whether the study differentiates between strategic and operational planning, whether short- or long-term performance is investigated and the degree of planning sophistication evident. Each of these issues is addressed briefly.

Dealing with the future is an essential activity in the management of all businesses regardless of size (Gibson 2002). Because planning can help firms structure future expectations, it is not surprising that there is strong support for the notion that planning generates some positive outcomes for firms (Schwenk and Shrader 1993). Because large organizations that use sophisticated planning systems are seen to be successful, "entrepreneurs are urged to follow suit and install planning systems" (O'Neill, Saunders, and Hoffman 1987).

Degrees of business planning

While the link between company size and incidence of planning has been documented in the literature, the definition of "planning" remains an issue that needs further exploration (Mintzberg, 1981, Shyder, 1982). The existence of a documented plan and the sophistication of the plan are the most widely used dimensions of evaluating the formality of the plan. A formal strategic plan is one that involves explicit and systematic procedures used to gain the involvement of those affected by the plan (Pearce et al, 1987; Bracker, Keats and Pearson, 1986) devised a classification model for the sophistication level of strategic plans in small firms. Planning sophistication refers to the type of plans (i.e. environmental analysis vs. operational budget); the formality of the plan (i.e. written vs. informal plans); and the time frame that the plans cover (i.e. long term vs. short term). Bracker, Keats and Pearson (1986) established four levels of planning sophistication: 1) structured strategic plans, 2) structured operational plans, 3) intuitive plans, and 4) unstructured plans. The current study focuses on structured strategic plans, which are documented and long-term oriented.

Viljoen (1994) suggested that, in the business paradigm, strategy is a term that is often used but seldom fully understood. It is often used to make a statement seem more important or provide a decision with more weight or credibility; consequently, "strategic selling" replaces "effective techniques for the salesperson" and "manpower strategy" is used in preference to "personal development plan." Equally, Giles (1991) maintained that management jargon has subverted the meaning of strategy by confusing it with objectives or tactics. Hatton and Bruce (1994) stated that although the concept of strategy is central to the field of management, a common definition has eluded researchers. Hence, with this level of confusion, it is evident that a number of studies are offering disparate definitions or ignoring differences. However, exceptions do exist in the literature.

Shrader et al. (1989) studied the planning/performance relationship in 97 small firms in central Iowa, USA, dividing planning into strategic (long-term) planning and operational (short-term) planning. They concluded that planning and performance were related in important and complex ways. Operational planning was more common and useful to small businesses, but there were some positive correlations between strategic planning and performance. Because so few small companies undertake strategic planning, they felt that there was a possibility that small companies were missing out on potential advantage.

Robinson et al. (1986) also looked at operational versus strategic planning concentrating on the small retail sector. They concluded that firms high in strategic and operational planning did not outperform firms that were without strategic planning, but were high in operational planning. However, they noted that, while managers overwhelmingly accorded greater importance to strategic planning than operational planning, more than 85 percent of the sample did not undertake strategic planning; rather, strategic decisions had to be made at crucial times, and were not prepared for in advance. These crucial times were referred to as "strategic windows" and once a strategic window is closed, day-to-day performance until the opening of the next window is primarily driven by operational planning.

Kelmer and Noy (1990) sought to determine whether strategic planning activities were being undertaken in a study of 94 small businesses in the Perth metropolitan region. They felt that a firm could be considered a strategic planner if it performed at least one of the activities in their list of strategic activities at least every two years. They included financial analysis as the most common strategic activity, performed by 89.4 percent of respondents. However, the literature would suggest that this is a financial planning rather than strategic planning activity. The authors acknowledge this in their conclusions, stating that the prevalence of financial analysis could be due to the availability of financial data from the firm's accountant. They concluded that most firms were seen to perform strategic activities on an ad hoc basis, with little evidence of formal written plans from which to analyze the results of performance. This raised the question as to whether the firms actually performed the strategic activities or simply thought they performed them.

Lowe and Clemens (1990) also examined strategic effort and strategic process across a variety of small firms in various industries Australia-wide. They came to the conclusion that Australian small firms are less involved in strategizing than comparable American firms and that strategy levels are highest in the service sector where education levels are higher.

A number of studies have shown that small firms tend to place great emphasis on operational planning (Shrader, Mulford and Blackburn, 1989; Nylen 1985). This is supported by Carson and Cromie (1990) who found that planning, when conducted by small companies, is limited in its scope and activities and therefore tends to be operational (Ibrahim et al 2004).

Formality of strategic planning

A formal strategic plan implies a deliberate means to include factors and techniques in a systematic way to achieve specified tasks (O'Regan & Ghobadian 2002). Hewlett (1999) suggests, "A strategic plan and the strategic planning process itself offers a competitive edge and enables a company to measure achievements against expectations".

A study of small firms in the USA found that a formalized strategic planning process has some benefits (Lyles et al., 1993). Lyles et al. state that "... the elements of goal formulation, developing distinctive competencies, determining authority relationships, deploying resources, and monitoring implementation receive more effective attention when small businesses engage in formal planning."

The most sophisticated form of planning which has been studied is strategic planning. While this form of planning has been influential in large firms, its utility in small firms is still being debated by researchers (Berman et al 1997). The formality of the strategic planning system (the extent to which planning documents exist) has been the most widely used definition of strategic planning in the empirical literature (Matthews, 1995). Formal strategic planning conveys "that a firm's strategic planning process involves explicit systematic procedures used to gain the involvement and commitment of those principal stakeholders affected by the plan" (Pearce et al.1987).

Strategic planning thus implies an attempt to alter a company's strength relative to that of its competitors, in the most efficient and effective way (O'Regan & Ghobadian, 2002). Strategic planning focuses on the direction of the organization and actions necessary to improve its performance. It is the process by which firms derive a strategy to enable them to anticipate and respond to the changing dynamic environment in which they operate (Hewlett, 1999).

Formalized strategic planning and performance

The link between formalized planning and business longevity and financial performance has been studied and documented in the research literature. Orser (2000), who studied 1,004 small companies found that "the presence of a business plan was highly correlated with performance." In this study, Orser measured "performance" by changes in revenue growth of the business. Moreover, Orser found that the use of a written business plan, especially a strategic plan, is a factor in the prospects of a small business to grow. Moreover, according to Orser, “those that continued to plan … currently run above average sized micro-businesses (in terms of the number of employees and sales revenue). This could be regarded as indicating that there is a correlation between business planning and successful performance” (Perry, 2001, Orser, 2000, Baker, 2001). Baker, who examined the relationship between the use of strategic planning and financial performance, found that “firms with strong financial performance were more likely to place a higher degree of emphasis on the use of strategic planning tools than were firms with weak financial performance.” An examination of the impact of strategic planning on the performance of small businesses in their different stages of development (Robinson 1984) reveals, “the improvement in effectiveness obtained by small firms engaged in strategic planning is not contingent on stage of development. Small firms, at each stage of development, experienced favorable improvement in effectiveness after engaging in strategic planning.” Robinson (1984) conducted his study by measuring four variables: sales, number of employees, return on sales, and sales per employee, on three levels of small-business development: 1) startup, 2) early growth, and 3) late growth. Robinson concluded that at the startup stage, the intensity of the strategic planning process is strongly associated with increase in the profitability of the company.

This finding supports the two very important fundamentals of this study: 1) the strategic planning process is positively associated with increase in profitability, and 2) micro business, as a group, can expect to increase their financial performance if they practice formalized strategic planning. In other words, if there is one group of businesses that should pay close attention to the issue of formalized strategic planning – it is the micro business group.

Numerous articles in academic publications have emphasized the importance of planning for small businesses (Ibrahim 2004). They contend that good planning is a key to the firm's success (Aram and Cowen 1990; Jones 1982; Frishkoff 1994; Barton and Hounsell 1994) and is a major contributor to profitability (Kargar and Parnell 1996; Ryans 1997). For example, Bracker and Pearson (1986) identified different levels of performance associated with different levels of planning.

These findings are consistent with the results of a survey conducted by Baker et al. (1993), which revealed that 94 percent of companies that performed strategic planning reported improved performance. Also, a study by Rue and Ibrahim (1998) found a strong positive correlation between the degree of sophistication of the planning process and growth rate in sales. In addition to these findings, the results of a study conducted by Schwenk and Shrader (1993) identified the presence of moderating variables on the effect of strategic planning on performance.

Studies also show that small businesses with structured planning procedures tend to outperform those with nonstructural planning procedures, and formal planning results in a wider variety of strategic decision making (Bracker, Keats and Pearson 1988). Others have found that, compared to those with non-formalized plans, firms with structured planning processes are more thorough and detailed, and their performance - as measured by growth of sales - is significantly higher (Lyles et al. 1993). In another study, Lyles et al. (1995) reported no significant relationship between formal planning and return on equity or return on assets. Still others have found no differences between formalized and non-formalized plans in terms of their impact on performance; both types lead to improved performance (Ackelsberg and Arlow 1985).

There is a growing body of research that finds some association between planning activity in small businesses and a variety of performance measures (Gibson & Cassar et al 2002). The underlying construct in such studies concentrates on either the content of the plans or the process of planning (Rue and Ibrahim 1998). However, Matthews and Scott (1995) suggest that in the planning literature the most widely used dimension of strategic planning has been the mere existence of planning documents (formality). Thus, even in research looking specifically at small firms, there is need for caution in interpreting those results that show associations between planning and performance. Few studies are able to make causal assertions, and there are many studies that fail to show any relationship (O'Neill, Saunders, and Hoffman 1987). As Rue and Ibrahim (1998) comment, "Evidence regarding the relationship of these processes with company performance is mixed." Nonetheless, normative arguments that planning influences performance continue to find favor. For example, on the basis of a correlation they found between sophisticated planning and growth in revenue, Berman, Gordon, and Sussman (1997) conclude, "Firms that plan produce better financial results than firms that do not plan".

Not everyone agrees that formalized strategic planning is beneficial to small businesses. According to Ibrahim (2002), a number of researchers report that the planning process should be far more informal in small companies than it is in large companies (Shrader, Mulford, and Blackburn, 1989). Indeed, some studies have even found that too much formalization of the strategic planning process may result in reduced performance (Robinson and Pearce 1983; Ackelsberg and Arlow 1985) because it detracts from the very flexibility that is a benefit of small size. A study by Rue and Ibrahim (1998) suggests that these inconsistencies may be an indication that performance depends on the content of the plan in addition to the formality of the planning process.

In summary, firms that plan produce better financial results than firms that do not plan. The study by (Rue and Ibrahim 1998) also demonstrated a familiar pattern in micro-business planning research, only a small percent of the micro-businesses studied use sophisticated planning techniques.

Business Planning as a Management Tool

There is a general belief that planning, because it is so prevalent in large firms, is a good management practice. This is supported by the belief, reflected in most business practice research, that rational economic behavior dictates the structured evaluation of alternatives (as present in traditional planning activities) as the dominant decision-making approach in firms of all sizes (Gibson 1997). Because large organizations that use sophisticated planning systems are seen to be successful, small companies are urged to follow suit and install planning systems (O'Neill, Saunders, and Hoffman 1987). When smaller companies are observed to "not engage in the type of structured planning reflected in . . . normative models" (Shuman and Seeger 1986), they often are regarded as exhibiting inappropriate behavior. This insistence on the large firm model continues to be dominant despite the frequent warnings that extending large firm practices to small firms is not always appropriate (O'Neill, Saunders, and Hoffman 1987; Glen and Weerawardena 1996). According to Gibson & Cassar et al (2002), “the underlying theme appears to be that planning is a good management practice for companies of all sizes, and that firms that don't plan are not as effectively managed as they could be."

Overview of Capacity

Capacity, in the context of the present study, is defined as a company's size in terms of number of employees. The size of a company (number of employees) is positively associated with incidence of business planning. Gibson and Cassar et al. studied 3,554 small companies over a period of three years (1995, 1996 and 1997), and revealed that only 18.9percent of the companies practiced business planning in each of the three years (1995-1997). Orser et al (2000), share this view. They note that "Analysis of firm size and business plan data indicate that larger firms were more likely to engage in planning". They also found that the majority of small businesses surveyed did not have a formalized business plan.

The size of the company (number of employees) has long been considered as a variable in the company's practice of business planning (Matthews and Scott 1995). For example, Matthews and Scott (1995) also found that as companies become larger, they have "greater available resources and increased internal differentiation, which leads to increased planning". On the other hand, smaller companies have fewer resources such as employees, expertise and time (Robinson & Pearce, 1984). Further evidence to the link between company size and the tendency to plan is found in Risseeuw and Masurel's (1994) study, which surveyed 1,211 real estate agents and concluded "large firms plan more intensively than smaller firms."

Frequency of business planning

In their research study, Gibson & Cassar et al (2002) observed that 1,132 (31.9 percent) of the 3,554 businesses that participated in the survey undertook business planning at some point during the three-year test period. This proportion remained relatively consistent over 1996 and 1997 with, respectively, 37.3 percent and 34.9 percent of businesses engaged in the preparation of documented plans. Of the firms examined over the three years, 49.13 percent (1,746) did not undertake any business planning (that is, answered "no" to the planning variable questions each year). However, only 18.91 percent of the firms were consistently planners over the three years they were surveyed. The study indicated that business size has positive associations beyond the 0.001 level of statistical significance for all three years. These results are consistent with the findings of previous empirical studies, which concluded that larger firms are more likely to plan than smaller firms. In addition, the Gibson & Cassar et al study demonstrates that only some of the companies (18.9percent) that plan did so on a regular basis over a period of three years.

Micro companies and business planning

The size of a company, in terms of employees, is especially relevant with micro business (Greenbank, 2000) because micro companies start with very few employees. Micro businesses are companies with 25 or less employees (SBA 2006). Greenbank asserts that very few micro business adapt an approach involving formulation of business plans and market research. Greenbank, who conducted in-depth interviews with 80 micro-businesses, found a significant gap between expected planning behavior of micro business and reality. Greenbank found that "just under 20 percent of micro businesses interviewed prepared a written business plan at startup". Greenback's finding is supported by Nayak and Greenfield (1994), who found that "formalized business planning was almost completely absent in micro businesses." Hingston (1993) argued that business planning is essential for even the smallest of firms. He said, "One of the first steps in starting any new business should be the preparation of a Business Plan..."

Micro-businesses' planning and company performance

In the context of micro businesses (employing 25 or less employees), there is a growing body of research that finds some association between planning activity in micro businesses and a variety of performance measures. The underlying construct in such studies concentrates on either the content of the plans or the process of planning (Rue and Ibrahim 1998). Even in research looking specifically at micro companies, there is need for caution in interpreting those results that show associations between planning and performance. Few studies are able to make causal assertions, and there are many studies that fail to show any relationship (O'Neill, Saunders, and Hoffman 1987). As Rue and Ibrahim (1998) comment, "Evidence regarding the relationship of these processes with company performance is mixed." Nonetheless, normative arguments that planning influences performance continue to find favor. For example, on the basis of a correlation they found between sophisticated planning and growth in revenue, Berman, Gordon, and Sussman (1997) concluded, "Firms that plan produce better financial results than firms that do not plan." The underlying theme appears to be that planning is a good management practice for micro businesses, and that firms that don't plan are not as effectively managed as they could be.

However, there appears to be a significant gap between expected behavior and reality (Greenbank 2000). The fact is that most micro companies not only lack sophisticated planning processes, but also lack almost any planning process. In the Berman et al (1997) study, 26 percent of the respondents engaged in planning. Seventy-four percent of the respondents stated that they did not plan in a systematic manner. The Berman et al study result is similar to those reported in previous studies of micro companies such as Waalewijn and Seegar (1993).

Small businesses

In 2005, there were approximately 25.8 million businesses in the United States, according to the Small Business Administration (SBA 2006). Census data show that there were 5.8 million firms with employees and 18.6 million without employees in 2003 (the most recent year with data). Small firms with fewer than 500 employees represent 99.9 percent of the 25.8 million businesses (including both employers and nonemployers). The balance, nearly 17,000 companies, are large businesses with over 500 employees.

Importance of small businesses to the U.S. economy

Small firms play an increasingly crucial role in the U.S. economy. They employ more than one half of the U.S. private sector work force, are responsible for about one-half of the GDP, generate more than one-half of all sales in the U.S., and create 60 to 80 percent of net new jobs annually (Ibrahim et al 2004). Furthermore, they produce 13 to 14 times more patents per employee than large patenting firms, employ 39 percent of high tech workers, and make up 97 percent of all exporters (Schiffer 1997; Adams-Smith 1996).

The latest data available from the Small Business Administration (SBA 2006) reveals the following facts about small businesses (employing 500 or less employees):

- Represent 99.7 percent of all employer firms.
- Employ half of all private sector employees.
- Pay more than 45 percent of total U.S. private payroll.
- Have generated 60 to 80 percent of net new jobs annually over the last decade.
- Create more than 50 percent of nonfarm private gross domestic product (GDP).
- Supplied more than 23 percent of the total value of federal prime contracts in FY 2005.
- Are employers of 41 percent of high tech workers (such as scientists, engineers, and computer workers).
- Are 53 percent home-based and 3 percent franchises.
- Made up 97 percent of all identified exporters and produced 28.6 percent of the known export value in FY 2004.

Micro businesses

Micro businesses are the backbone of the small business segment in the US. There are no specific statistics on the number of micro businesses in the US, but since we know that there are18.6 million non-employer companies (companies with no employees), and 4.3 million companies with less than 20 employees. We conclude from that there are at least 22.9 million companies (88.7percent) that classify as micro-businesses.

A micro-business is independently owned and operated, does not dominate either its local or national field, and tends not to engage in innovative practices (Hunger and Wheelen, 1998). A micro-business is generally started to generate an income for the owner or the family. It tends to remain relatively small, with fewer than 25 employees (Frier & Meyer 2003).

The notion that micro-business owners are "overloaded" is suggested by Orser (2000), who states that preliminary findings suggest that management capacity –or time available—will have an impact on the presence of a business plan. Leaders who are busier with day-to-day operations spend less effort on formal plans. In other words, an owner of a micro-business startup may not have the capacity to formally plan because he or she is allocating time and resources to the day-to-day operation of the business.

One of the characteristics of a micro business is that the owner has to be able to "wear several hats" (Todd, 1984). This means, according to Todd, that the micro-business owner must be concerned with selling, purchasing, accounting, pricing, and advertising and other business functions. Atkinson & Storey (1994) suggest that there is a positive association between identifiable management functions and the size of the company. This means that in larger companies, where there are identifiable departments and roles, there is a greater separation between management functions and operational functions. For example, a sales manager does not have to also participate in the packaging and shipping of the product he or she just sold. In a micro-company setting, the owner often works at both the management and the operational level (Greenbank, 1999).

Robinson (1984) studied strategic planning practices of 51 micro companies that were clients of the Small Business Development Center (SBDC). Robinson concluded that comprehensive planning was conspicuously absent from micro companies. He adds that planning occurs over time with a reactive rather than pro-active orientation. Robinson (1984) reports that for micro-business owners "time is scarce and difficult to allocate to planning in the face of constant day-to-day operating problems."

Firm size has long been considered to have important effects on a firm's strategic processes. Larger firms have more resources, which lead to increased planning (Fredrickson and Mitchell, 1984; Mintzberg 1973). Mathews (1995) notes that the resource constraints of both micro and growth-oriented entrepreneurial firms (Patterson 1986) will prevent them from maintaining planning activity. For much the same reasons (lack of time and other resources), it will cause the micro-business owner to spend less time on formal strategic planning.

Overview of Necessity

Necessity, in the context of the present study, refers to the need of micro businesses to raise capital from outside sources in the form of debt or equity. The literature suggests that micro companies are more likely to engage in formalized strategic planning when in need for outside capital. The reason for this finding is that the minimum SBA loan package requirements (SBA, 2006), stipulates that the borrower is required to submit to their lending institution (bank, credit union etc.) a comprehensive business plan. According to Gibson & Cassar et al (2002), "when a firm is attempting to gain extra debt or equity financing, it may be encouraged to prepare a business plan to legitimize the request."

Capital is the lifeline of any business, but especially micro business, which does not have deep pockets. When all internal funding sources are exhausted, a micro business is forced to seek outside funding in order to succeed. According to Singhvi (2000), every micro business is in need of raising capital, and to do so means that micro companies often have to prepare strategic plans.

According to Greenbank (2000), the micro business owner/managers who formulated plans were generally required to by organizations such as the banks and support agencies, rather than because of any perceived advantages they felt could be gained from planning. For example, one printer who obtained a loan from the Princes Youth Business Trust said: "I did the plan to get the loan. I never actually referred to it at all ... It was just a means to get something, yes, because if you go in and tell somebody an idea they ask for it in writing, you know, so it was just a means to get what I wanted..."

Singhvi (2000) contends that a strategic plan for micro businesses that seek outside funding should includes a simple definition of their mission, goals and objectives, recognition of strengths and weaknesses, description of products and /or services, brief history of the business, competition and market share analysis, financial history and projections, management and organization structure, and action items for the next 12 months. Depending upon the management philosophy and the nature of business, these plans could include additional items such as franchise agreement, business valuation, and buy sell agreement.

According to Johns (1992), micro business owners/managers often are poorly prepared to make business loan requests. They may lack a clear idea of the real financing needs of their businesses, or be poorly equipped to articulate those needs due to lack of a formal strategic plan. Their financing requests may appear poorly structured and seemingly shortsighted to the banker.

O'Dwyer & Ryan (2000), who conducted a focus group of micro business owners/managers reports that: "the focus group was more critical of the business plan, indicating that it is a cosmetic document used to obtain finance from banks and grant-giving state agencies. The participants indicated that they "did a business plan to get grants and loans and all that."

A study conducted by Singhvi (2002) included 24 micro businesses, which included retail distributors (9), manufacturers (8), hospitality industry (4) and others (3). The businesses ranged in terms of annual revenues from less than $1 million to $17 million: Less than $1 mil. (7 companies), $1 mil. to less than $5 mil. (10 companies), $5 mil. to less than $10 mil. (4 companies), $10 mil. to less than $20 (3 companies). The findings of the Sinhvi (2002) study were that more than 70 percent of the surveyed companies wrote the business plan primarily for some form of financing needs. Two out of 24 companies wrote their strategic plans to raise venture capital (equity capital).

The literature is supportive of the notion that, for the most part, micro businesses engage in formalized strategic planning only when faced with the necessity of raising outside capital. Fry and Stoner (1985) identify strategic plans as "...plans that are undertaken mainly to gain funding from an outside source, and only secondarily to improve one's position in the marketplace." Gibson & Cassar et al (2002) asserts that so many firms change their planning behavior over time and this may imply that firms use business planning for specific purposes that change over time.

Micro businesses and outside funding

The expansion in the small business sector (SBA 2006) has required large sums of capital. Such growth could not have occurred without extensive participation by debt and equity lenders, since most entrepreneurs lack the personal resources to take their products and services from the idea stage to the marketplace (Johns 1992)

According to the Small Business Administration (SBA 2005), small business borrowing from banks is on the increase. Overall, small business loans (under $1 million) by commercial banks showed moderate increases between June 2003 and June 2004. The rate of growth in the dollar amount of all small business loans outstanding increased 5.5 percent, from $495 billion in June 2003 to $522 billion in June 2004. By comparison, small business loans grew by 2.3 percent from June 2002 to June 2003. The increase was comparable to the annual increases in borrowing between June 2000 and June 2002. The increases came primarily from the larger small business loans ($100,000 to $1 million). Medium-sized small business loans ($100,000 to $250,000) and large small business loans ($250,000 to $1 million) increased 4.95 percent and 8.4 percent, respectively. The number of these loans also increased 4.95 and 8.5 percent, respectively, during this period (Table 3). The value of all business loans also increased more than in the previous year, from $1.32 trillion to $1.38 trillion, up 4.2 percent.

Changes in the value and the number of the smallest size loans for micro businesses (under $100,000) remain difficult to interpret because of lack of consolidated data by major small-business credit card issuers. Further complicating interpretation are the merger and acquisition activities of credit card institutions, as well as credit card operations among commercial banks, federal saving banks, and commercial finance companies. During 2003-2004, the number and the dollar amounts of loans under $100,000 declined further (Table 3), although at lower rates than in the previous year. The number of these smallest micro business loans outstanding declined from 14.1 million to 13.6 million, a 3.6 percent drop; the value declined from $125.7 billion to $125.3 billion in June 2004, a decline of 0.32 percent. These declines appear to be because most major credit card lenders continued to promote small-business credit cards and report continued increases in the number and dollar amounts of the smallest loans in the CRA report for loan activities in 2003.

Table 3: ***Dollar Amount and Number* of Small Business Loans***

Loan Size		2002	2003	2004	Percent Change2003-2004
Under $100,000	Dollars	128.9	125.7	125.3	-0.32
	Number	15.65	14.09	13.58	-3.62
$100,000 to $250,000	Dollars	96.1	98.3	103.1	4.88
	Number	0.846	0.828	0.87	4.82
$250,000 to $1 million	Dollars	259.0	271.1	293.9	8.41
	Number	0.744	0.751	0.81	8.00
Total Business Loans	Dollars	1307.0	1318.1	1373.3	4.19

Note: Data for this table obtained from the SBA (2005).
**Dollars in Billions, Numbers in Millions*

Requirements for funding requests

The SBA loan package (SBA 2006) requires the borrower to submit to their lending institution (bank, credit union etc.) a comprehensive business plan. According to Wichmann & Kilpatrick (2002), the benefits of developing a comprehensive business plan are that most lenders and investors will ask for it, it can serve as a guide for the business, and business plans help borrowers and bankers determine financial needs. The business plan should be tailored to meet the information needs of potential investors and creditors. The business plan should be concise and communicate the facts clearly.

The Business Credit Information Package (BCIP) helps micro businesses prepare a structured and formalized strategic plan. . The BCIP is a 19-page workbook to be used by borrowers and their accountants to apply for bank credit. In recent years, many banks were burned badly by poor lending decisions. It was developed jointly by The Robert Morris Associates (RMA) and the American Institute of CPAs (AICPA). Released in November 1993, 50,000 copies were distributed by year end (Hagaman, 1994).

"For bankers, the package provides most, if not all, financial information needed for meaningful analysis; for business owners, it satisfies a banker's information need without having to incur significant costs; and for CPAs it specifies a simple, prescribed format and requires fewer footnotes," said RMA President Joseph W. May.

Not everyone agrees with the notion that micro companies prepare their strategic plans primarily for funding reasons. According to Zinger et al (1996), “Ours is an interesting finding which challenges the conventional wisdom: A substantial proportion of the sample firms seem to be using the business plan as a decision support tool. The participants in Zinger study, which included a focus group of ten micro companies, seem to have recognized the value of business planning. However, very few of those who had prepared business plans did so as a prerequisite for financing. “In light of the sentiments expressed within the focus group, one would have expected the notion of financial or investment plans to be more prevalent,” note Zinger et al.

Challenges in meeting founding requirements

Micro businesses have very lean staff and the owner/manager plays multiple roles such as CEO, CFO, strategic planner and general sales manager (Singhvi 2000). None of the companies that Singhvi surveyed had a full time or part time business planner either because it is too expensive to hire a business planner or the importance of such a function is not yet fully understood.

Singhvi, who surveyed 24 micro companies that developed a plan, found that the primary responsibility for preparing the business plan is assumed by the owners in 8 companies (33.3percent) and by the outside consultants in 16 companies (66.7percent). The CFOs or controllers also participate in the preparation of these business plans, especially in preparing financial projections.

Most micro companies do not regularly update their business plans. Only three of Singhvi's 24 companies updated their plans once a year. Three companies went out of business due to financial and management problems, and, therefore, the question of updating the plan does not arise. About 75percent of Singhvi's 24 companies update their business plans on an "as needed" basis. The need to update the plans could be due to financing or refinancing requirements, potential acquisitions or change in ownership. The companies that update their business plans each year are those which have a controller, a part time consultant and an executive committee. The presidents of these companies require an annual update of business plans.

About 75percent of Singhvi's group did achieve their primary objective (i.e., financing, refinancing, venture capital, acquisition and sale of business). The remaining 25 percent failed to achieve their objective, despite having a business plan, because of inadequate sales volume, and failure to relocate the office for one reason or acquire or sell businesses as planned. Overall, the business plan helped the owners to achieve their primary objective.

Sources of outside funding for micro businesses

Commercial banks

Commercial banks are the largest suppliers of debt capital to small firms, supplying more than 80 percent of lending in the credit line market and, with the exception of leasing, more than 50 percent in other markets, such as commercial mortgages and vehicle, equipment, and other loans (SBA 2005). In June 2004, small business loans outstanding owed to commercial banks amounted to $522 billion. Very large banks with assets of at least $10 billion are making a significant percentage of small loans of less than $100,000.

The SBA (2006) has two major loan classifications:

1. Small business loans are defined as business loans under $1 million.
2. Micro business loans are defined as business loans under $100,000.

Small Business Administration

Rather than provide direct funding to small businesses, the SBA provides guarantees for major portions of loans made by SBA-qualified private-sector lenders (typically commercial banks, called lending partners) to small businesses. This arrangement is beneficial in a number of respects. First, the small business benefits by being able to obtain financing it could not receive otherwise. Second, the SBA does not have to lay out large amounts of cash. Finally, the bank can sell the guaranteed portion of the loan on the secondary market, providing liquidity while generating profits from the new customer base.

The SBA's four main business loan programs are

1. 7(a) Loan Guaranty Program
2. SBA Micro loan Program
3. 504 Certified Development Company Loan Program
4. Small Business Investment Company (SBIC) Program.

Angel investors and Venture capital companies

Angel investors are called angels because the funding they provide often seems heaven-sent at a time when the friends-and-family money is exhausted and the company has not yet developed the products or revenue to attract later-stage investors (Holaday et al 2003). Many angel investors are wealthy individuals who believe in the entrepreneur or have a close personal interest in the products or missions of the companies they support.

Angels want involvement that produces emotional and intellectual reward. They also want an `exit strategy'. How do they get their investment back, with a profit? Experienced angel investors have learned to be patient and to have realistic expectations about the timeline for the development of a company's products. In information technology, concepts can be commercialized in three to five years or less.
Angels will not invest on faith alone. They need to see a realistic, well-thought out business plan (Holaday et al 2003).

The dominant basic structure for venture capital activity continues to be a private, limited partnership (or equivalent), which is generally unregulated, and government--independent. The role of the venture capital firm is to bring together a network of investors (limited partners) and entrepreneurs (portfolio companies). The firm's investment in the portfolio company is usually in the form of equity, and involves long-term, very hands-on (often the venture capital firm partner will become a board member of the portfolio company), patient, and supportive. The venture capital firm, and subsequently the investors, realize a return on investment when the portfolio company's stock increases in value allowing the venture capital fund to exit through an IPO (flotation) or acquisition (Taylor 2002).

Both, Angels and venture capital companies want to know that the entrepreneurial team has considered how to develop and launch the company's products and eventually make money, so a persuasive business plan offers more than a description of the technical details of proposed scientific developments (Holaday et al 2003). The business plan also should contain realistic financial projections for the company's first few years and offer an honest assessment of the technical, regulatory and financial hurdles the company will face before its products are ready for the market. Many business plans are unduly optimistic about the degree of competition the company's products will face, but sophisticated angels and venture capital companies are rightly skeptical about claims that an entrepreneur has found an unoccupied niche in the crowded marketplace.

Overview of Clarity

Clarity, in the context of the present study, is defined as a clear sense of purpose, consisting of the company's value system, and manifested in a written mission statement (David & David 2003). A written (formal) mission statement leads to a formalized strategic plan (Peyrefille 2006). According to David & David (2003), mission statements can be defined as enduring statements of purpose that distinguish one company from another. In their study of 95 mission statements, David & David concluded that mission statements could advance companies' business strategies, and enhance their organization's performance.

A major benefit of having a clear mission statement is that confusion, uncertainty and contradiction are eliminated about the goals of the company (Bart et al 2001). That is, when employees of a company operate according to a defined set of shared values, they experience greater job satisfaction (Fisher and Gitelson, 1983). This is because the company's employees know what to do and what is expected from them. Consequently, they enjoy a greater sense of purpose, direction and focus in their day-to-day activities (Bart et al 2001). The literature demonstrates how a sense of the company's purpose, based on shared values, and manifested in a mission statement is the foundation of a formalized strategic plan.

Company's values and purpose

Company values, as defined by Raynor (1998), are the principles to which the company should align all actions and are essential and enduring tenets. Collin and Porras (1996) explained that company values are a small set of general and guiding principles that are not to be confused with the specific cultural or operating practices, nor to be compromised for financial gain or short-term expediency. Sufi & Loyns (2003) propose the following formula: Core ideology = Core values + Purpose. Mintzberg and Quinn (1996) explain the core ideology as a rich system of values and beliefs about an organization, shared by its members, that distinguishes it from other organizations.

The process of defining an organization's purpose is to help the participants elicit their values, as these have a profound impact on motivation and attitude towards work (Anonymous 2006). This work on values opens the door to understanding the purpose, or mission. And while values provide motivation, having a clear sense of the purpose or mission goes further than this. It provides passion and, in the longer term, a sustainable energy. Companies can start this process by helping managers and employees define and make explicit their values, as these have a profound impact on motivation and attitude towards work. "Imagine how you would feel in the morning if the five values which were most important to you were all being stimulated at work. Now imagine the opposite. How would you feel then?" (Anonymous 2006)

Defining values opens the door to understanding our purpose, or mission. The word 'mission' can frighten a micro-business owner or manager, but it can simply be defined as that which they are drawn to, enjoy paying attention to, or which they are passionate about. It may be quality, innovation, customer service, profit or output. It is those things we constantly seek to put before everything else. "It is surprising that more companies haven't made this link between values and mission and how, when people are aligned at these levels, they inevitably have so much more to give" (Anonymous 2006).

Denton (2001) explains how to go about developing a clear sense of purpose for an organization, which is shared by most members. It starts by answering the question, "Why do we exist and what is important"? The setting up an organization or the process of starting up a business begins by first clarifying a group's true purpose. When a group is clear about who they are and what they are about, there is less need for rigid control and robotic rules, regulations, and procedures. Gaining a sense of identity is one key essential dimension to more effective teamwork. It may not be essential for the entire group to think as one or to reach a complete agreement or singularity about what they are supposed to be about, but the process of continually monitoring and evolving this process is essential.

Company's mission statement

Mission statements now have a key place in a company's value-setting processes. Mission statements are often based on the founding values of entrepreneurs (Sufi & Loyns 2003).

In a study of senior managers of companies all over the world conducted by Bain & Co. conducted in 1996, mission statements have been consistently shown to be the top-rated management tool during each of the prior ten years (Bain et al 1996). There are many reasons for their popularity. To begin with, mission statements are supposed to answer some fairly simple yet critically fundamental questions for every organization, such as: why do we exist; what is our purpose; what are we trying to accomplish? When these questions are properly answered, a mission statement captures an organization's unique and enduring purpose (Bart, 1996a, 1999; Ireland and Hitt, 1992; Klemm et al, 1991, Want, 1986).

Sufi & Loyns (2003), question, "What is our business for?" is largely synonymous with the question, "What is our mission?" David (1993) defines the mission statements as enduring statements of purpose that distinguishes one company from another. Denton (2001) contends that one way for any group to discover who they are and what they are about is to ask five whys. Begin with a descriptive statement such as the purpose of our group is to "make products or we provide services". Then ask, "Why is that important" five times and answer each of the whys. After about five responses, you will find out that you are getting down to the fundamental and unique purpose of the organization (Collins and Porras, 1996).

Once a micro business has reached some consensus about why the business exists, then it’s time to ask, "What would be lost if the company ceased to exist?" The goal of this exercise is to find the deeper reasons for being a business, and discover what makes what the company does meaningful. Micro companies should also make sure that their employees understand why it is important for the company to continue to exist. Find out what core values are truly and passionately held. Employees at micro companies need to find some meaning for their work other than just work itself. It would also be helpful if this purpose was inspirational to those inside the company, but the main thing is to articulate and define the company’s ideology clearly (Bart 2001).

The literature indicates that creating and using a mission statement can foster a shared value system, a focus on common objectives, teamwork, behavioral guidelines, and emotional commitment to the company. The concept of "measurable" is key to the practical application of the mission statement. While the mission statement is given to every employee and hangs on nearly every office wall and every break room, it is not the physical document that provides buy-in to the company's values. Rather, it is a daily, weekly, monthly, quarterly, and yearly focus on the measurable that have been set from the mission (Mullan 2002).

It is vitally important to develop a clear mission statement because the mission drives organizational goals, strategies, and behavior. Organizations without missions are like ships without clear destinations. Seneca said, "If you don't know where you are going, any path will take you there" (Matejka et al 1993). Pearce and David (2003) conducted research that supported the intuitive notion that higher performing firms tend to have comparatively more comprehensive mission statements.

While simply having a mission statement is good, Rarick & Vitton (1995) assert that having one with content is even better. Rarick & Vitton’s study analyzes mission statements using a content-analysis research format--noting how many of the features are mentioned. Mission-statement content was then correlated with the firm's financial performance using return on common shareholder equity for the latest fiscal year.

When the "high content" mission statements are compared with the "low content" mission statements, the average return for firms with "high content" statements is 26.2 percent, and the average return for firms with "low content" statements is 13.7 percent (Rarick & Vitton 1995).

Several works have delineated what should be included in a mission statement (Pearce and David, 1987; David, 1989). However, it is not the contents of the mission statement that stirs debate, rather it is the process used to prepare the document and how the finished document is employed in the organization that comes under question. Goett (1997) summed up the view of the anti-mission statement camp: “The fact is, mission statements are rarely useful.”

Mission statement and strategic planning

Mission statement development is widely considered to be the first step in formalizing the value system of a company (Peyrefitte & Forest 2006). David (1989) analyzed mission-statements’ content and suggested that mission statements may be written to portray organizational objectives and values consistent with those of key stakeholders, rather than to reveal organizational distinctiveness (Ashforth & Gibbs, 1990). “We content analyzed the mission statements for their inclusion of nine components commonly included by large firms” (David, 1989). They rated each firm's use of a particular mission component. The component received a rating of O if it was not mentioned, whereas it received a rating of 1 if the component was either identified or discussed.

Table number 4 shows the relations between mission-statement components and their use in the David study. Nonparametric chi-square analyses and Kruskal-Wallis one-way analysis of variance tests were used to test David and David’s hypotheses. The chi-square analyses compare the observed and expected frequencies to test for differences between categories (included or not included mission statement components). The Kruskal-Wallis tests use the rankings of scores on variables rather than the actual observations to test for differences across the industries.

Table 4: ***Relationships Between Component Type and Component Usage****

Component	Included Firms	Included Percent	Not Included Firms	Not Included Percent	χ^2	*p*-value
Customers	*42*	*74%*	*15*	*26%*	*12.789*	*.000*
Products and Services	*49*	*86%*	*8*	*14%*	*29.491*	*.000*
Markets	24	42%	33	58%	1.421	.233
Technology	*20*	*35%*	*37*	*65%*	*5.070*	*.024*
Survival, Growth, Profitability	34	60%	23	40%	2.123	.145
Philosophy	*21*	*37%*	*36*	*63%*	*3.947*	*.047*
Self-concept	*40*	*70%*	*17*	*30%*	*9.281*	*.002*
Public Image	*19*	*33%*	*38*	*67%*	*6.333*	*.012*
Employees	26	46%	31	54%	.439	.508

*** italicised cells highlight significantly different categories (included vs. not included)**

Note: Data for this table was obtained from David (1989)

Writing a mission statement is no small task. Too short a statement, like "Our mission is to increase shareholder value," provides no boundaries and says little about the institution (Arend 1994). Mission statements and value systems are often created in the hope that they can help push the organization toward some desired destination. Successful organizations should probably spend 90 percent of their time keeping people focused and 10 percent figuring out how to get there (Denton 2001).

Researchers Miller and Dess (1996) identified a hierarchy of intentions that every organization tries to achieve. This list includes having the following:

1 A broad vision of what the organization should be.

2 An organizational mission or core values (an identity);

3 Specific goals that are operationalized.

Another way of understanding strategic intent was provided by Hamel and Prahalad (1989), who said the concept implies a particular and unique point of view about the long-term market or competitive position that a firm is trying to build over the next decade or so.

Every person and every organization needs to have a clear destination for their group or organization. This will require finding better vehicles than simple mission statements. Mission statements are usually planned, lifeless, and static whereas much of that world is unpredictable and uncontrollable. Formalized plans are ordered, singular, and well conceived, while reality is disorganized, full of unexpected changes, and frequently random in nature. It is one thing to have an objective, but it is another to actually get people moving together in the same direction (Denton 2001).

Mission statements are also regarded as the critical starting point for almost every major business initiative (Bart 2001). They are supposed to provide a context for planning (Thompson and Strickland, 1992). The key to creating an effective mission statement is to describe what the business provides, not what it does. When writing a mission statement, one should try to see things from a customer's perspective instead of from an internal, technical view. Telephone companies need to understand that they are in the communication business, and customers don't rightly care how the company makes it happen (Larson 1998).

According to David & David (2003), the mission statement needs to be longer than a phrase or sentence, but not a 2-page document. A mission statement should be inspiring. Bart & Beatz, (1998) suggest that a well-crafted mission statement can provide the following advantages or benefits to a company:

1. Insure unanimity of purpose
2. Arouse positive feelings about the firm

3. Provide direction
4. Provide a basis for objectives and strategies
5. Serve as a focal point
6. Resolve divergent views among managers.

Understanding these benefits can help companies prepare mission statements that advance their business strategies and, in so doing, enhance their organization's performance.

In writing a mission statement, prior research by Pearce and David (2003) suggests that the document should include the following nine components:

1. Customers (the target market)
2. Products/Services (offerings and value provided to customers)
3. Geographic Markets (where the firm seeks customers)
4. Technology (the technology used to produce and market products)
5. Concern for Survival/Growth/ Profits (the firm's concern for financial soundness)
6. Distinctive Competence (how the firm is different or better than competitors).
7. Philosophy (the firm's values, ethics, beliefs)
8. Public Image (contributions the firm makes to communities)
9. Employees (the importance of managers and employees)

Table 5 illustrates the inclusion of each of the 9 components of a mission statement in the Pearce and David (2003) study.

Table 5: ***Mission Statement Content Analysis Across Three Industries***

Component	Computer Firms (n=27)	Food Firms (n=36)	Bank Firms (n=32)	AVERAGE (n=95)
Customer	**2.1481**	2.1111	2.1250	2.1280
Product/Service	2.0741	**2.3056**	2.1875	2.1890
Market	1.7037	**1.8056**	1.4375	1.6489
Technology	**1.9630**	1.1667	1.2813	1.4703
Survival/Growth	1.4074	**1.7222**	1.6562	1.5952
Philosophy	1.5185	1.3889	**1.6875**	1.5316
Self-Concept	**2.4815**	2.1667	2.1563	2.2681
Public Image	1.4444	1.5278	**1.6875**	1.5532
Employees	**1.8889**	1.7778	1.6562	1.7743
AVERAGE	**1.8477**	1.7747	1.7638	

Note: Scale is 1 = statement does not include the component
2 = statement includes the component in vague terms
3 = statement includes the component in specific terms
Table gives average values for each component within each industry
Values in bold are the highest for each component and firm type

Note: Data for this table was obtained from Pearce and David (2003)

Results of David and David's (2003) study suggest that, when it comes to company mission statements, there is a great deal of room for improvement. The sample firms in this study generally did not include needed components in their mission statements. Although computer firms have more comprehensive mission statements than food or banking firms, the content analysis reveals severe shortcomings even among computer company statements. The overall lack of completeness in mission statements reported among sample firms in this research may serve to alert and caution business leaders to strive to create better mission documents.

Mission statement and micro businesses

A sense of mission can be a powerful force in shaping and guiding a micro business. The idea that an organization might be guided by a "mission" is a key part of business thinking. Should, then, a micro business develop and share a mission statement? After all, developing a mission, like any other form of business activity, is an investment in the future performance of the organization (Vickham1997). Will it pay dividends? Vickham argues that the entrepreneurial organization (micro business) should invest in developing a mission statement and that it can pay dividends. However, this will only happen if the mission statement is right for the organization and is developed in a way that is sensitive to the strategic requirements of the micro business.

Micro businesses lack many of the advantages of large businesses. They have limited economies of scale and lack power over suppliers and customers. The competitive advantage of a small, dynamic business is usually located in the way it positions itself into a profitable, protect able market niche and avoids head-to-head competition with larger organizations. The strategic element of a mission statement should reflect this (Vickham1997).

In summary, the mission guides what the company values and seeks to do. With the mission established, the strategic planner would devise a future course of action that will take the company to great heights (Chung, 2003). The process for designing a clear, comprehensive, and exciting mission is Job Number 1. The mission is what drives everything else. But remember that it is not the content of the mission statement as much as the process used to prepare the document that steers debate (Goett 1997). The strategic plan must support the mission and its shared values. The value clarification activity could prove a major catalyst to developing the shared value system, which is essential to strategic planning. “Whatever the approach, reasons, excuses, pain or exhilaration, write a great mission statement and consistent strategic plan while there is still time!” (Datejka1993).

Theoretical Orientation and Conceptual Framework

The literature cited thus far provides the theoretical orientation and conceptual framework for the present study. The theoretical foundation is supported by the various studies (Gibson et al 2002, Orser et al 2000, Matthews and Scott 1995) that have established a link between the size of a company (number of employees) and incidence of formalized strategic planning. The conceptual framework of the present study is also supported by the literature. Gibson & Cassar (2002) clearly state that the need for funding (Necessity) is a factor in the relationship between company size and incidence of formalized strategic planning. In addition, Peyrefille (2006) states that mission statement development (Clarity) is widely considered to be the first step in strategic planning and the basis or starting point for all activities in formulating strategies.

The present study explores the relationship between a company’s size (capacity) and the existence of a formalized strategic plan by examining two variables; necessity and clarity. These two variables mediate between the size of the company (IV), and incidence of formalized strategic planning (DV). The present study hypothesizes that necessity and clarity are positively associated with the size of the company, and with incidence of formalized strategic planning.

Research Questions

The research questions that stem from the theoretical orientation and conceptual framework are:

Research question number 1 – Is there a link between a company's size (Capacity) and its need for outside capital (Necessity)? This research question is designed to explore the relationship between capacity (number of employees) and necessity in the context of micro companies. The purpose of this question is to explore the possibility that as companies grow, and increase their number of employees (say from 1 to 15), they are more likely to need traditional (banks) outside capital, as opposed to credit card funding, which is one source of funding for very small companies. Data from the Small Business Administration (ABA 2006) indicates that the value and the number of the smallest size loans for micro businesses (under $100,000) remain difficult to interpret because of continued efforts by major small business credit card issuers to consolidate their data reporting.

Research Question 2 – Is there a link between the need for outside capital (Necessity) and incidence of formalized strategic planning (Strategy)? This research question is designed to explore the relationship between the need for outside capital and the development of a formalized strategic plan by micro companies. This purpose of this question is to provide empirical data to examine the indications in the literature that such a link exist.

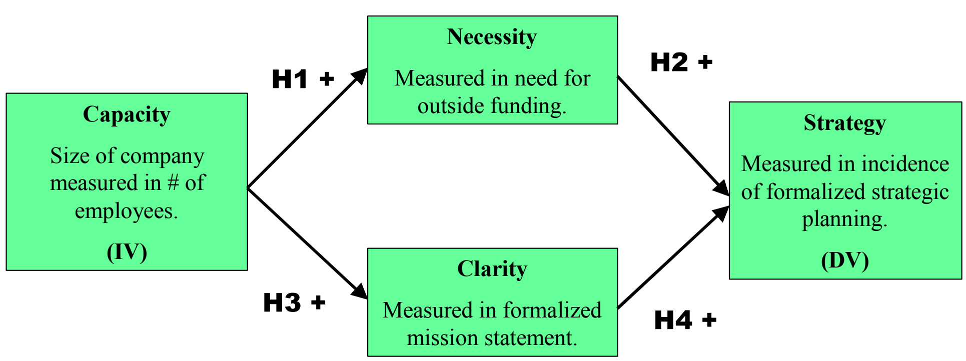
Research question 3 - Is there a link between a company's size (Capacity) and the formation of a mission statement (Clairty)? This research question is designed to explore whether the size of a company (capacity) is linked to the formation of a value system, which is manifested in the form of a written mission statement. In other words, are companies with more employees (say 10) more likely to have a written mission statement than a company with 2 employees?

Research question 4 - Is there a link between the existence of a written mission statement (clarity) and incidence of formalized strategic planning (strategy)? This research question is designed to explore the relationship between written mission statements and incidence of formalized strategic planning among micro companies. The purpose of this question is to find out if a micro company which has a defined purpose and value system (in the form of a written mission statement) is more likely to develop a formal strategic plan than micro companies that do not have a written mission statement.

Hypotheses

The diagram below is a graphical expression of the hypotheses that were developed for the present study.

Hypothesis Modeling



H1. Capacity is positively associated with Necessity.

The larger the size of the company in terms of number of employees (Capacity), the greater the need for outside funding (Necessity). This hypothesis stems from research question number 1, which explores whether a company's size (Capacity) has an impact on the need for outside funding (Necessity) of micro companies.

Capital is the lifeline of any business, but especially micro business, which does not have deep pockets. When all internal funding sources are exhausted, a micro business is forced to seek outside funding in order to succeed. The literature does not provide any empirical evidence to suggest a link between a company's size and the need for outside funding. Therefore, hypothesis number 1 is an attempt to explore the relationship between Capacity and Necessity on an empirical basis.

H2. Necessity is positively associated with Strategy.

The greater the need for outside funding (Necessity), the higher the incidence of formalized strategic planning (Strategy). This hypothesis is testing the relationship between the need for outside capital (Necessity) and incidence of formalized strategic planning (Strategy).

According to Johns (1992), micro business owners/managers often are poorly prepared to make business loan requests. The literature is supportive of the notion that, for the most part, micro businesses engage in formalized strategic planning only when faced with the necessity of raising outside capital. Fry and Stoner (1985) identify strategic plans as "...plans that are undertaken mainly to gain funding from an outside source, and only secondarily to improve one's position in the marketplace."

O'Dwyer & Ryan (2000), who conducted a focus group of micro business owners/managers, reports that: “the focus group was more critical of the business plan, indicating that it is a cosmetic document used to obtain finance from banks and grant-giving state agencies. The participants indicated that they “did a business plan to get grants and loans and all that.”

Here, again, the literature is proposing such a relationship (Greenbank 2000), but there is no empirical validation of this notion. An empirical validation of this hypothesis will enhance the body of knowledge on the relationship between the need for outside funding and incidence of formalized strategic planning in the context of micro companies. Such a validation will explain the relationship between the need for outside funding and strategic planning, but will not explain the reasons for the funding need.

H3. Capacity is positively associated with Clarity.

The larger the size of the company in terms of number of employees (Capacity), the higher the incidences of a written mission statement (Clarity). This hypothesis is testing the relationship between the IV (Independent variable Capacity) and the existence of a value system, which manifests itself in the form of a written mission statement.

Micro businesses lack many of the resources of large businesses. The competitive advantage of a small, dynamic business is usually located in the way it positions itself into a profitable, protect able market niche, by defining its mission, and avoids head-to-head competition with larger organizations. The strategic element of a mission statement should reflect this (Vickham1997).

A sense of mission can be a powerful force in shaping and guiding a micro business. The idea that an organization might be guided by a "mission" is a key part of micro-business thinking. Vickham (1997) argues that the entrepreneurial organization (micro business) should invest in developing a mission statement and that it can pay dividends.

Here, too, the literature asserts that the size of a company is associated with the existence of a written mission statement (David & David 2003), but no empirical data is provided for its support. An empirical validation of this hypothesis will provide the empirical validation of this notion.

H4. Clarity is positively associated with Strategy.

The higher the incidence of a written mission statement, the higher the incidence of formalized strategic planning (Strategy). This hypothesis is testing the relationship between incidence of a written mission statement (Clarity) and incidence of formalized strategic plan (Strategy).

A written (formal) mission statement leads to a formalized strategic plan (Peyrefille 2006). According to David & David (2003), mission statements can be defined as enduring statements of purpose that distinguish one company from another. In their study of 95 mission statements, David & David concluded that mission statements could advance companies' business strategies, and enhance their organization's performance. Mission statements are also regarded as the critical starting point for almost every major business initiative (Bart 2001). They are supposed to provide a context for strategic planning (Thompson and Strickland, 1992).

As in the previous hypotheses, the literature alludes to such a relationship (Peyrefille 2006), but no empirical evidence is provided.

All in all, the hypotheses presented in the present study fulfill an important role in the theoretical orientation. The theoretical orientation has established a link between a company's size (number of employees) and incidence of formalized strategic planning, but there is no empirical evidence to explain what are some of the variables that impact such a relationship. The testing of these hypotheses will provide an opportunity to either validate or not validate two variables that are cited in the literature as possible factors in the relationship between Capacity and Strategy.

Control variables

In addition to the dependent variable (Capacity), the independent variable (Strategy), and the two mediating variables (Necessity and Clarity), the present study will test five control variables, which include two dummy variables. The five control variables are: 1) business category (dummy), 2) age-range of the business, 3) educational level of owner/manager, 4) age range of owner/manager, and 5) business ownership status (dummy). Each of these control variables will be tested for relationship with the mediating variables.

The relationship between the control variables and the mediating variables will be tested using a multiple regression analysis. The following formula will be used to check for relationship: $Y = a + bX + cZ + e$. Where Y is the "dependent variable" and X and Z are the independent variables.

CHAPTER 3 - METHODOLOGY

Research Design

A questionnaire was used to collect data from the subjects of the present study. The questionnaire was web-based, which allowed the subjects to quickly and easily answer the questions, and provide the required information. A web-based questionnaire holds numerous advantages over a traditional paper-based questionnaire. The first advantage is the ease of dissemination. An email (Figure 1) was sent to the each of the subjects in the sample inviting them to participate in this study. The email had a URL (a link to a website) embedded in the body of the message, which allowed subjects to easily reach the questionnaire by clicking on the hyperlink in the email.

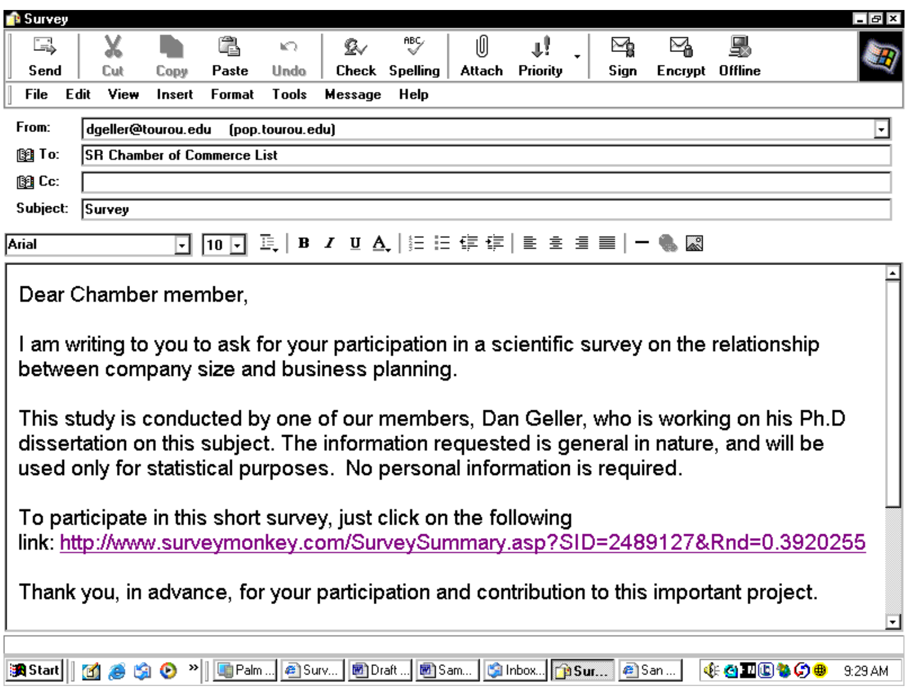


Figure 1: Email invitation to participate in the web-based survey.

The second advantage of a web-based questionnaire over paper-based questionnaire is the ease of filling out the required information on the questionnaire. In a web-based questionnaire, all the subject had to do is to click on a "radio button" in order to answer a question. Also, in cases where subjects wanted to change their response, say from "yes" to "no", they were able do so at a click of a mouse. Figure 2 features a sample of a page from a web-based questionnaire.

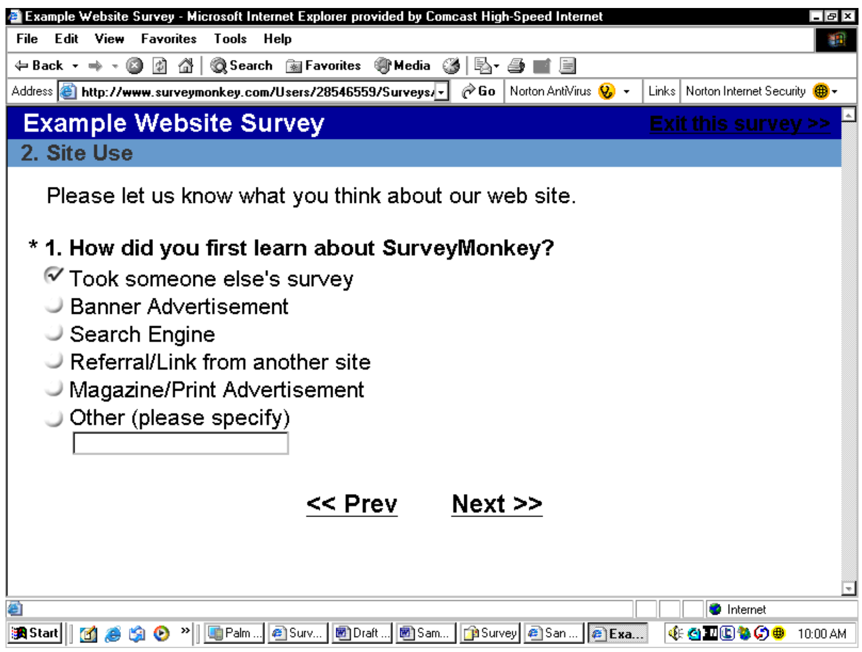
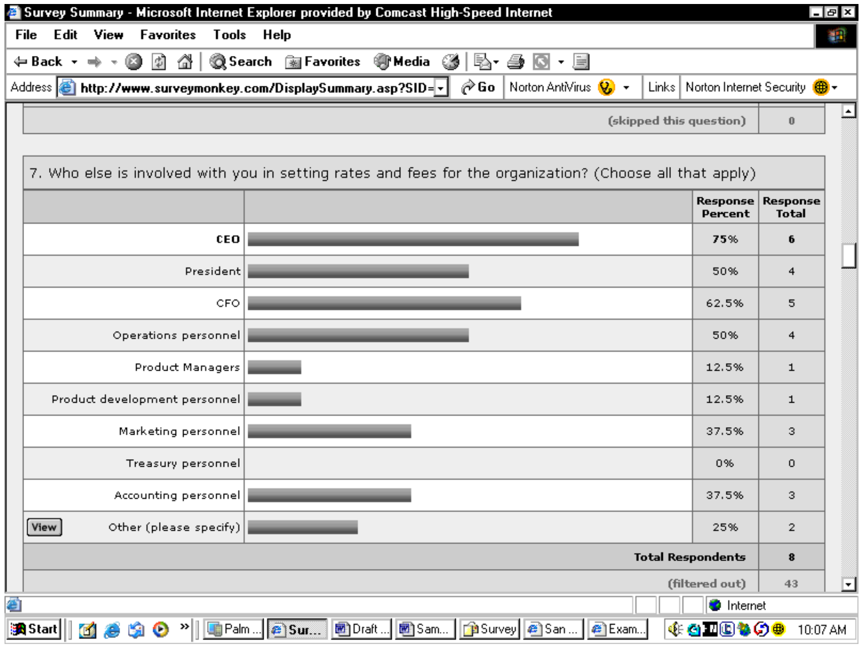


Figure 2: Sample of a page from a web-based questionnaire

The third advantage of a web-based questionnaire is the collection and tabulation of the data. The system that was used to administer the present survey (Zoomerang) collected and tabulated the responses automatically. Thus, basic statistical information of the responses was available immediately after the respondents had completed their survey. Figure 3 features an example of the basic statistical information that the web-based system provided.



	Response Percent	Response Total
(skipped this question)		0

7. Who else is involved with you in setting rates and fees for the organization? (Choose all that apply)

	Response Percent	Response Total
CEO	75%	6
President	50%	4
CFO	62.5%	5
Operations personnel	50%	4
Product Managers	12.5%	1
Product development personnel	12.5%	1
Marketing personnel	37.5%	3
Treasury personnel	0%	0
Accounting personnel	37.5%	3
View Other (please specify)	25%	2
Total Respondents		8
(filtered out)		43

Figure 3: Statistical presentation of the data from Survey Monkey

Questionnaire Design

The literature indicates that questionnaires have been used in many of the studies related to strategic planning and micro-companies. For example, Berman et al (1997), who conducted a survey of small businesses that are clients of the Massachusetts Small Business Development Center, used a questionnaire to obtain the data. In the O'Regan & Ghobadian (2002) study, a questionnaire was used as well, and Matthews and Scott (1995) obtained their findings from 130 small businesses by using a questionnaire.

Control-variable questions

The present study contains five control variables (inclusive of two dummy variables), which are included in the questionnaire (Tables 6 to 10). Control variables provide additional reference points, which are useful in exploring possible relationship outside the defined hypotheses, and can be used as a guide for future studies. The main reason for including these five control variables in the present study is to see whether there are other measurable factors that could be influencing the relationship. For example, when testing the relationship between Capacity (size of company) and Necessity (use of outside capital), it is very helpful to also test whether the category of the business (information-based company or not) has an impact on such relationship.

These two dummy variables, business category and business ownership, which create a number to stand-in for a qualitative fact or a logical proposition, will take the value of “0” or “1”. In a regression model, a dummy variable with a value of 0 will cause its coefficient to disappear from the equation. Conversely, the value of 1 causes the coefficient to function as a supplemental intercept, because of the identity property of multiplication by 1. This type of specification in a linear regression model is useful to define subsets of observations that have different intercepts and/or slopes without the creation of separate models.

The two dummy variables in the present study were given hypothetical variable names in order to conduct their relationship to other variables. The control variables were represented in the following manner:

1. Information-based companies (INFOBSED)
2. Family-owned business (FMLYOWND)

As dummy variables, these two variables have the value of 1 if any statement is true, and 0 if it is false. If (mean) $\mu d = 1$ or $\mu d = 0$, there is no uncertainty - an observer will know what to expect 100 percent of the time. Therefore, there is no benefit in further observation nor will this variable be significant in prediction, estimation, or detection of any other information. As μd moves up or down to 0.5, the information content increases, because there is less certainty about the value of the variable (Garavaglia and Sharma 1996).

In addition, the control-variable questions serve two other purposes. The first is to provide an easy set of questions at the beginning of the survey in order to accustom respondents to the survey and the system. The other reason the control-variable questions are included is to have a reference point for potential future studies on the link between different business-control categories and incidence of formalized strategic planning. Tables 6 through 10 feature the control-variable questions.

Table 6: ***Control-variable question no. 1 (dummy)– Information-based company***

Response	Question/Possible responses
Value	**Which category best describes your type of business? (Check one)**
Value 0	Professional and business services, Healthcare and education, Research and development, Banking, finance, insurance
Value 1	Manufacturing, production, Retailer, wholesaler, Construction, Household services, personal services.

This control (dummy) variable distinguished between two types of business categories; information-based companies, and non-information-based companies. Information-based companies are defined as companies that their core product or service is information such as Professional and business services, Healthcare and education, Research and development, Banking, finance, insurance. Non-information-based companies include Manufacturing, production, Retailer, wholesaler, and Construction, household services and personal services.

Table 7: ***Control-variable question no. 2 – Age-range of business***

Response	Question/Possible responses
Value	**How long has this business been in existence?**
Value 1	Less than one year.
Value 2	One to three years.
Value 3	Three to five years.
Value 4	Five to ten years.
Value 5	Over ten years.

This control variable distinguished between businesses in their various age ranges. Specifically, it measured the start up stage (less than one year) of the company. According to the definition of the Small Business Administration Office of Advocacy (SBA 2006), a start-up is a business that has been in operation one year or less. The purpose of this control variable was to test whether older businesses are more likely or less likely to apply for outside capital and/or to have developed a mission statement for the company.

Table 8: ***Control-variable question no. 3 – Educational status of owner/manager***

Response Value	Question/Possible responses **What is your highest level of education?**
Value 1	High school
Value 2	Associate degree
Value 3	Bachelor's degree
Value 4	Master's degree
Value 5	Post graduate degree

This control variable distinguished between various educational levels of the owner/manager. The purpose of this control variable was to test whether business owners/managers, with higher education, are more likely or less likely to apply for outside funding, and/or to have developed a mission statement for the company.

Table 9: ***Control variable question no. 4 – Age range of owner/manager***

Response Value	Question/Possible responses **What is your age range?**
Value 1	18-24
Value 2	25-34
Value 3	35-44
Value 4	45-54
Value 5	Over 55

This control variable distinguished between various ranges of age of the business owners/managers. The purpose of this control variable was to test whether age has any relationship to the two mediating variables.

Table 10: ***Control variable question no. 5 (dummy) – Ownership of business***

Response	Question/Possible responses
Value	**Is your business a family-owned business? (Majority ownership by one family)**
Value 0	Yes
Value 1	No

The purpose of this control variable was to distinguish between businesses that are family owned, and those that are not. This distinction allowed the present study to test whether family-owned businesses are more likely or less likely to apply for outside capital and/or have developed a mission statement for the company.

Capacity question

The second section of the questionnaire pertains to the independent variable (IV) Capacity. The purpose of this question was to determine the size of the company in terms of number of employees. The question was structured to obtain the number of employees in the respondent's company, which was also the value assigned to the Capacity of the company. For example; a company with five employees was assigned the value of "5".

The responses to this question were used to examine possible relationship with the two mediating variables; Necessity and Clarity. It is important to note here that the purpose of the Capacity question is not to measure relationship between Capacity and Strategy, as in the case of previous studies (Gibson and Cassar et al 2002, Orser et al 2000, Matthews and Scott 1995), but rather to explore relationship between Capacity and Necessity, as well as Capacity and Clarity. The web-based questionnaire allowed respondents to choose only one category in order to eliminate duplicate answers to the same question. Table 11 features the Capacity question of the web-based questionnaire.

Table 11: ***Capacity question - Section two of the questionnaire***

Response	Value	Question/Possible responses
		How many full-time equivalent people work in your company? (Including yourself)
1	Value 1	
2	Value 2	
3	Value 3	
4	Value 4	
5	Value 4	
6	Value 5	
n	Value 5	

Necessity question

The third section of the questionnaire is the Necessity section. This section established whether or not the respondent has obtained financing from an outside source. An outside source, in the context of the current study, refers to a debt or equity funding from lending institutions such as banks, credit unions on the debt side, and venture capital companies or angel investors on the equity side. This is a question where respondents had the option to reply “yes” or “no”. Table 12 features the Necessity question, as it appeared on the web-based questionnaire.

Table 12: ***Necessity- Section three of the questionnaire***

Response Value	Question/Possible responses
	Have you ever obtained outside funding for your current business from sources such as a commercial bank, credit union, venture capital company, or angel investor?
Value 0	No
Value 1	Yes

The responses to the Necessity question were assigned a value in accordance with the model developed by Pearce and David (2003). A "no" response was assigned the value of "0", and a "yes" response was assigned the value of "1".

H1 - Capacity and Necessity correlation

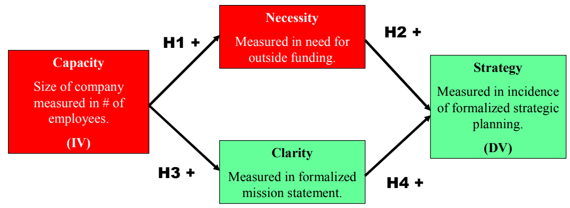
The relationship between Capacity and Necessity was examined by correlating each of the Capacity values with the average value of Necessity for each of the groups of firms of a particular size.

Table 13: ***H1 - Relationship between Capacity and Necessity (example)***

Capacity group	Necessity/Average value (No=0, Yes=1)
Group 1	0.0857
Group 2	0.1243
Group 3	0.2487
Group 4	0.3725
Group 5	0.5192

The relationship between the Capacity Group (number of employees) and the average value of Necessity was examined by using a simple regression analysis. The following formula will be used to check for relationship:

Hypothesis Modeling



$Y = a + bX + cZ + e$

Let Y be the "dependent variable" and let X and Z be the independent variables.

A simple regression model can be used in order to investigate the nature of the relationships between the variables. Thus, for the first hypothesis we estimated the relationship:

***(1) Necessity** = $a_1 + b_1$ **(Capacity Group)** + e_1*

Similarly, for the second hypothesis we estimated the following relationship:

***(2) Strategy** = $a_2 + b_2$ **(Necessity)** + e_2*

For the third hypothesis we estimated the following equation:

***(3) Clarity** = $a_3 + b_3$ **(Capacity Group)** + e_3*

And for the fourth, we estimated the equation:

***(4) Strategy** = $a_4 + b_4$ **(Clarity)** + e_4*

Since the relationships in our model are more complex, a more appropriate approach was used to examine the simultaneous relationships between the variables. This was done by first adding a fifth equation relating the incidence of formal strategic plan to the size of the firm as follows:

(5) Strategy = $a_5 + b_5$ (Capacity Group) + e_5

Test for Mediation

Additionally we examined the relationships between the two mediating variables "Necessity" and "Clarity", using the Baron and Kenny (1986) and Judd and Kenny (1981) four-step test, in order to ascertain that the model is not using quasi-superfluous variables, that is, that the correlation between these two mediating variables is not excessively high. The purpose of this test was to ensure that "Necessity" and "Clarity" are not in effect two aspects of one mediating variable. For example, if every company that has obtained outside funding also has a formal value system, then Necessity and Clarity are two aspects of the same mediating variable or are both simply expressions of the size variable.

The four steps in establishing mediation are:

Step 1: Show that the initial variable is correlated with the outcome. Use Y as the criterion variable in a regression equation and X as a predictor (estimate and test path c). This step establishes that there is an effect that may be mediated.

Step 2: Show that the initial variable is correlated with the mediator. Use M as the criterion variable in the regression equation and X as a predictor (estimate and test path a). This step essentially involves treating the mediator as if it were an outcome variable.

Step 3: Show that the mediator affects the outcome variable. Use Y as the criterion variable in a regression equation and X and M as predictors (estimate and test path b). It is not sufficient just to correlate the mediator with the outcome; the mediator and the outcome may be correlated because they are both caused by the initial variable X. Thus, the initial variable must be controlled in establishing the effect of the mediator on the outcome.

Step 4: To establish that M completely mediates the X-Y relationship, the effect of X on Y controlling for M should be zero (estimate and test path c). The effects in both Steps 3 and 4 are estimated in the same equation.

If all four of these steps are met, then the data are consistent with the hypothesis that variable M completely mediates the X-Y relationship, and if the first three steps are met but Step 4 is not, then partial mediation is indicated.

To test for this, we used a multiple regression equation where all three variables, size, necessity and clarity are posed as 'independent variables' as follows:

(6) Incidence $= a_6 + b_6$ ***Capacity Group*** $+ c_6$ ***Necessity*** $+ d_6$ ***Clarity*** $+ e_6$

Careful examination of the results of these six regression equations enabled us to identify whether size operates directly on strategy or whether necessity and clarity are closely related.

Strategy question

The fourth section of the questionnaire addresses the Strategy variable (DV). This section contains a question related to the existence of a formalized strategic plan. The Strategy question utilizes Bracker, Keats and Pearson (1988) classification model for the sophistication level of strategic plans as the instrument. Bracker et al devised three levels of planning sophistication, and defines each of the planning levels as follows:

Structured Strategic Planning – Formalized, written long-range plans covering the process of determining major outside interests focused on the organization; expectation of inside interests, information about past, current, and future performance; environmental analysis; and determination of strengths and weaknesses of the firm, and feedback. Typically 3-15 years in nature.

Structured Operational Planning – Written short-range operation budgets and plans of action for current fiscal period. The typical plan of action would include basic controls such as production quotas, cost constrains, and personnel requirements.

Unstructured Planning – No measurable structured planning in the firm.

The reason Bracket's et al (1988) instrument was selected for the present study is because it establishes a clear measure for the level of strategic planning sophistication and formalization of businesses, which is the objective of the Strategy question. The specific questionnaire that Bracker et al used to survey the subject companies is not being used because besides the definitions of strategic planning it contains questions on "industry-specific financial business performance", which are not relevant for the preset study.

Still, the base definition of strategic planning of Bracker's et al (1988) makes the three levels of formalized planning an ideal instrument to measure the relationships between a company's size and incidence of strategic planning.

Table 14: ***Strategy question – the fourth section of the questionnaire***

Response	Strategy question/Possible responses
Value	**Which of the following three definitions of planning best describes the planning status in your company?**
Value 1	There is no measurable structured planning in the firm.
Value 2	My company has a Written short-range operation budgets and plans of action for current fiscal period. The typical plan of action would include basic controls such as production quotas, cost constraints, and personnel requirements.
Value 3	My company has a formalized, written long-range plans covering the process of determining major outside interests, focused on the organization; expectation of inside interests, information about past, current, and future performance; environmental analysis; and determination of strengths and weaknesses of the firm, and feedback. Typically 3-15 years in nature.

The responses to the Strategy question were coded in accordance to Bracker's three levels of planning sophistication. Structured strategic planning was assigned the value of "3". Structured operational planning was assigned the value of "2", and unstructured planning was assigned the value of "1".

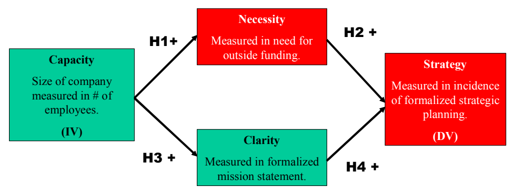
H2 – Necessity and Strategy correlation

The relationship between Necessity and Strategy was examined by correlating the average value of Necessity, for each of the two subgroups, with the average value of Strategy. Table no. 5 is an example of this examination.

Table 15: ***H2 - Relationship between Necessity and Strategy***

Necessity/Average value (No=0, Yes=1)	Strategy/Average value (Unstructured plans=1) (Structured operational plans=2) (Structured strategic plans=3)
0.0700	1.3037
1.2000	2.7873

Hypothesis Modeling



The relationship between the average value of Necessity and the average value of Strategy was examined by using a simple regression analysis. If the simple regression analysis will show that the average value of Strategy increases with the increase in the average value of Necessity, then H2 is supported.

Clarity question

The fifth section of the questionnaire addresses the Clarity variable. This section contains a question related to the existence of a written mission statement. The Clarity question consists of the nine components of a mission statement as defined by Pearce and David (2003). In the questionnaire, respondents were presented with these nine components, and the respondents were asked to indicate whether or not ("yes" or "no") they have written any or all of the nine components of a mission statement.

The responses to the clarity question were coded in accordance to the value system used by Pearce and David (2003). Table 16 features the nine components of a mission statement.

Table 16: ***Clarity question – the fifth section of the questionnaire***

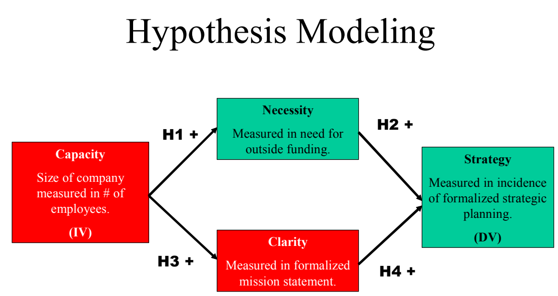
Response/ multiple chice	Clarity question/Possible responses
Value=total number of categories selected. If none is selected, value= 0.	**A written mission statement includes the following nine components. Which of these components, if any, exist in writing at your company?**
Value 1	Customers (the target market)
Value 1	Products/Services (offerings and value provided to customers)
Value 1	Geographic Markets (where the firm seeks customers)
Value 1	Technology (the technology used to produce and market products)
Value 1	Concern for Survival/Growth/ Profits (the firm's concern for financial soundness)
Value 1	Distinctive Competence (how the firm is different or better than competitors).
Value 1	Philosophy (the firm's values, ethics, beliefs)
Value 1	Public Image (contributions the firm makes to communities)
Value 1	Employees (the importance of managers and employees)

H3 – Capacity and Clarity Correlation

The relationship between Capacity and Clarity was examined by correlating each of the Capacity sub groups with the average value of Clarity for each of the sub groups. Table 17 features the relationship between Capacity and Clarity

Table 17: ***H3 - Relationship between Capacity and Clarity***

Capacity group (Number of employees in groups).	Clarity/Average value (No to all=0
Value 1	0.3174
Value 2	1.4629
Value 3	1.7515
Value 4	2.9436
Value 5	2.1603



The relationship between the number of employees (Capacity group) and the average value of Clarity was examined by using a simple regression analysis. If the simple regression analysis shows that the average value of Clarity increases with the increase in the number of employees, than H3 is supported.

H4 - Relationship of Clarity to Strategy

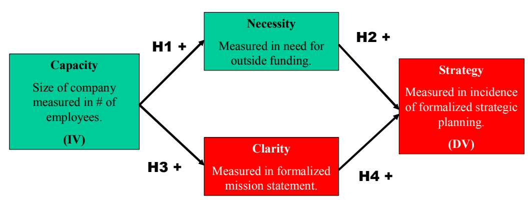
The possible relationship between Clarity and Strategy was examined by correlating the average value of Clarity with the value of Strategy. Table 18 is an example of this examination.

Table 18: ***Relationship between Clarity and Strategy***

Clarity (No to all=0) Value of 1 to 9.	Strategy (Unstructured plans=1) (Structured operational plans=2) (Structured strategic plans=3)
0.3174	1.3037
1.4629	1.7873
1.7515	2.0438
2.9436	12.597
2.1603	12.7362
3.4186	2.9217

The relationship between the average value of Clarity and the value of Strategy was examined by using a simple regression analysis. If the simple regression analysis shows that the value of Strategy increases with the value of Clarity, then H4 is supported.

Hypothesis Modeling



Study population

The population for the current study is the membership of the San Rafael Chamber of Commerce. San Rafael is the largest city in Marin County, California. The Chamber of Commerce of San Rafael has a membership of 827 companies. The distribution of companies' size (number of employees) at the Chamber of Commerce is similar to the distribution of companies' size in the US. According to the SBA (2006), there are 18.6 million non-employer companies (sole proprietorships). There are no accurate statistics on how many micro companies exist in the US, however, since every non-employer company is also a micro company, we can deduce that there are at least 18.6 million micro companies in the US. This means that more than 72 percent of all companies in the US are micro companies.

The distribution, by number of employees, of members of the San Rafael Chamber of Commerce is exhibited in Appendix A. The diversification of the types of industries of the companies at the Chamber of Commerce is presented in Appendix B.

Sample Size

In past surveys that the Chamber of Commerce conducted, the response rate was about 30 percent on the first wave, and 40 percent on the second wave, which, in the case of the present study, generated 270 valid responses out of a sample of 827 companies. The Officers of the San Rafael Chamber of Commerce were confident that such a level of response can be achieved because the members of the Chamber are very supportive of surveys, and most of them know each other from networking opportunities. However, in order to ensure a sufficient level of responsiveness, an incentive was offered to people who complete the survey in the form of a free strategic planning report.

Although the survey generated the anticipated 270 valid responses, we decided to exclude a handful number of companies with very large number of employees in order stay focused on micro businesses. We did anticipate having to eliminate some very large companies (number of employees) from the analysis based on the distribution of the membership of the San Rafael Chamber of Commerce (Appendix A).

Therefore, the total number of valid responses, with 40 or less employees, which have been analyzed in the present study, is 228. The number of valid responses (228) exceeds other studies with a similar scope, and thus we were comfortable with this sample size. For example, Bracker et al (1988), who conducted a survey of small businesses and the relationship between formalized strategic planning and financial performance, used a sample of 217 small businesses. In the O'Regan & Ghobadian (2002) study, a total of 194 valid responses were received - a response rate of 27 percent, and Matthews and Scott (1995) obtained their findings from 130 small businesses located in one United States city. In the O'Regan & Ghobadian (2002) study, a total of 194 valid responses were received, a response rate of 27 percent. In a study conducted by Stewart (2002), the units of analysis consisted of 100 small businesses within the Atlanta Metropolitan Statistical Area (MSA) of the state of Georgia. Additionally, French (2004), who used a random sample of 936 small businesses, achieved a response rate of 19.3 percent, with a final usable response rate of 17.9 percent.

To determine if the anticipated number of valid responses would be sufficient for the current study, a-priori power test has been conducted. Also, in order to establish conservative criteria for the calculations, a two-tailed test was selected. The t-Test was based on the following parameters:

- Alpha=5 percent.
- Beta=20 percent (Power of 80 percent).
- ES=0.30 Effect size

Note that for correlation tests the effect size is the correlation coefficient. $r = 0.3$ by convention is a medium effect size.

Given the a-priori correlation test: two tail, effect size = 0.3, alpha 0.05, beta = 0.20, the total sample size should be 82.

For an effect size of 0.2, the sample size should be 191.

The total number of cases in the study was 228.

The current study received a greater sample size (228). In the event that the minimum response from this sample had not reached the required number of 191 valid responses, a secondary database could have been used. The secondary database was of the Novato Chamber of Commerce (a neighboring city to San Rafael), which has a similar profile of companies and distribution of number of employees.

Limitations

Since the present study was conducted in a specific and defined geographical area, generalization of the findings should be done with caution. There might be differences in the make up of industry type of micro companies in different parts of the country, which may have an impact on the findings of the current study.

Further limitations relate to the constructs represented in the study. Unfortunately, the data set has limited the analysis undertaken to a single dichotomous variable. This limits the ability to adequately represent the breadth of the planning construct, although this approach is still consistent with a majority of planning studies (Schwenk and Shrader 1993).

CHAPTER 4 – DATA COLLECTION AND ANALYSIS

Overview

This chapter contains two major sections. The first section is a description of the process of the data collection, and a presentation of the raw data. The second section provides detailed analysis of the variables, and reports the results of the statistical tests of the four hypotheses of the study.

The Chapter also describes the process of approval of the questionnaire by the Institutional Review Board (IRB), the placement of the survey on the Web-based survey system (Zoomerang), the administration of the survey, and main characteristics of the respondents and business enterprises.

Approval by the Institutional Review Board (IRB)

On March 16, 2007, the IRB approved the questionnaire and its accompanying documents for use in this study (Figure 4).

Touro University International
Institutional Review Board for the Protection of Human Subjects

IRB REVIEW FORM

PROJECT TITLE: Factors impacting low incidence of formalized…	**PROJECT INVESTIGATOR** Dan Gller	**PROJECT DATE:** 3/16/07
APPLICATION TYPE: ☐ EXEMPT	X☐ **EXPEDITED REVIEW**	☐ FULL REVIEW
APPLICATION STATUS: X☐ **APPROVED**	☐ APPROVED WITH AMENDMENT	
☐REQUIRES ADDITIONAL INFORMATION	☐ NOT APPROVED	
THE FOLLOWING ADDITIONAL INFORMATION/AMENDMENT IS REQUIRED BY THE IRB:		

Afshin Afrookhteh 03/16/07

IRB Chair Date

Figure 4: Approval by the Institutional Review Board

The questionnaire, which contains the nine questions outlined in the Methodology section of the present study, and the consent statement (Appendix C), were also approved by the IRB, and were uploaded onto the Zoomerang system.

Survey Administration

The survey was placed on Zoomerang and launched on April 10, 2007. The President and CEO of the San Rafael Chamber of Commerce sent out an email invitation to all member-companies to participate in this survey. At the time of the survey, there were a total of 965 member companies on the distribution list. The survey was closed on May 5, 2007 (Figure 5).

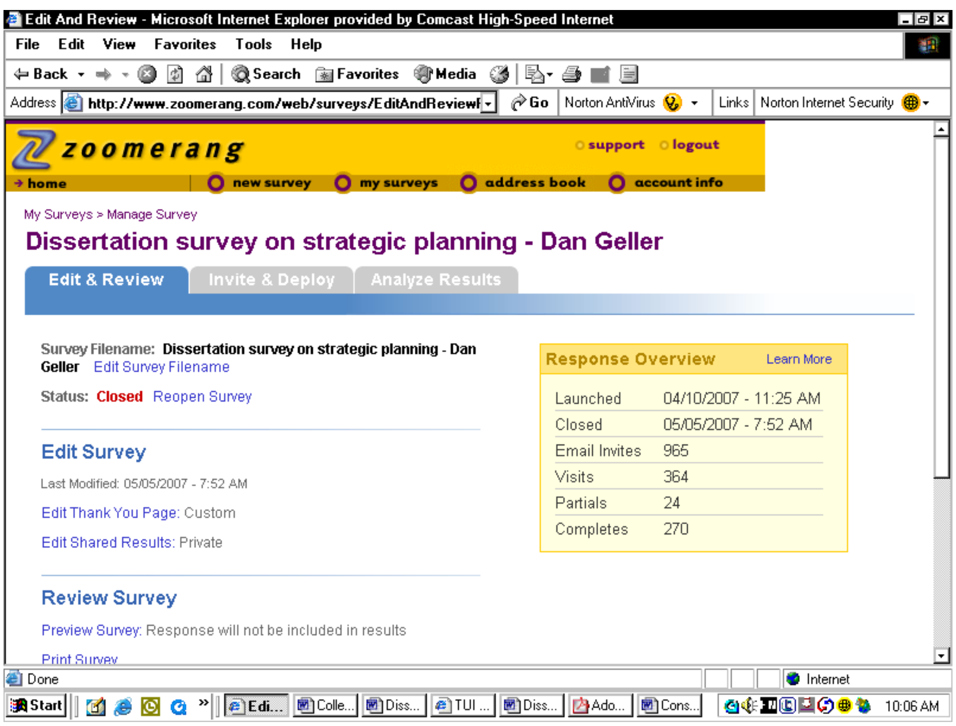


Figure 5: Survey administration data

During the 25 days in which the survey was open for response, a total of 364 member-companies (37.7 percent) visited the survey site. Out of the total visits to the survey, 294 respondents (30.5 percent) filled out the questionnaire. However, there were 24 incomplete questionnaires, which were marked as invalid. The total number of valid responses was 270 (28 percent); of which 228 are companies with 40 employees or less that have been used in the statistical analysis.

Presentation of data

Demographics

Business category

Question 1 addressed the type of business of the respondents (Table 19). Out of the total responses, 130 (56.28 percent) companies classified themselves in the category of Professional and business services, Healthcare and education, Research and development, Banking, finance, insurance, and 98 (42.42 percent) respondents classified themselves as Manufacturing, Production, Retailer, Wholesaler, Construction, Household services, Personal services.

Table 19: ***Distribution of business category***

1. Which category best describes your type of business? (Check one)			
Professional and business services, Healthcare and education, Research and development, Banking, finance, insurance.	Value 0	130	57.02%
Manufacturing, production, Retailer, wholesaler, Construction, Household services, personal services.	Value 1	98	42.98%
Total		**228**	**100%**

Business age

Question 2 addressed the issue of the age of the business (Table 20). The largest group of respondents (40.69 percent) reported that their business has been in existence over ten years. The remaining respondents reported varying length of time – less than one year 7.36 percent, one to three years 18.61 percent, three to five years 13.42 percent, and five to ten years 18.61 percent.

Table 20: ***Distribution of business age***

2. How long has this business been in existence?			
Less than one year.	Value 1	17	7.36%
One to three years.	Value 2	43	18.61%
Three to five years.	Value 3	31	13.42%
Five to ten years.	Value 4	43	18.61%
Over ten years.	Value 5	94	40.69%
Total		**228**	**100%**

Analysis of cross tab between the type of business and the age of the business (Table 21) reveals that 60 (46.15 percent) of the professional-services companies have been in business over ten years, vs. only 34 (34.69 percent) companies in the manufacturing and retail category. Pearson Chi-square is high (19.168) and significant reflecting the fact that older businesses tend to be more in the business-services category (value=0), and younger in manufacturing and retail services (value=1).

Table 21: ***Cross tab of business type and business age***

		Business age					Total
		1	2	3	4	5	
Buseniss type	**0**	3	18	21	28	60	130
	1	14	25	10	15	34	98
Total		17	43	31	43	94	228
Chi-Square Tests							
	Value	**df**	**Asymp. Sig. (2-sided)**				
Pearson Chi-Square	19.168	4	0.00073				
Likelihood Ratio	19.630	4	0.00059				
Linear-by-Linear Association	12.492	1	0.00041				
N of Valid Cases	228						

Education level

Question 3 explores the level of education of the respondents (Table 22). It reveals that 101 (37 percent) of the respondents have a Bachelor's degree, 59 (22 percent) have Master's degree, 43 respondents (16 percent) have a high school degree, 34 respondents (13 percent) have an Associate degree, and 33 respondents (12 percent) reported having Post Graduate degree.

Table 22: ***Level of education of respondents***

3. What is your highest level of education?			
High school	Value 1	36	15.58%
Associate degree	Value 2	29	12.55%
Bachelor's degree	Value 3	86	37.23%
Master's degree	Value 4	48	20.78%
Post graduate degree	Value 5	29	12.55%
Total		**228**	**100%**

Cross tab between the level of education and the category of business (Table 23) reveals that 105 companies (80.76 percent) of those in information businesses have a BA or more (Bachelor's, Master's and Post Graduate), while only 58 companies (59.18 percent) of those in production and service industry do.

Table 23: ***Cross tab between business type and owner/manager education***

		Owner/manager Education					Total
		1	2	3	4	5	
Buseniss type	**0**	12	13	51	33	21	130
	1	24	16	35	15	8	98
Total		36	29	86	48	29	228
Chi-Square Tests							
	Value	**df**	**Asymp. Sig. (2-sided)**				
Pearson Chi-Square	15.68236	4	0.003476				
Likelihood Ratio	15.83477	4	0.003249				
Linear-by-Linear Association	14.89813	1	0.000113				
N of Valid Cases	228						

A cross tab between level of education and the age of the business (Table 24) reveals that respondents with higher level of education 70.21 percent (Bachelor's, Master's and Post Graduate) are involved with companies that have been in existence more than ten years. The Chi-square of 17.2 is not significant (asymptotic alpha =f

0.3716). Thus, no significant relation between business age and owner education was found.

Table 24: ***Cross tab between level of education and business age***

		Owner/manager Education					Total
		1	2	3	4	5	
Age of Business	**1**	1	3	6	3	4	17
	2	11	6	13	12	1	43
	3	5	3	12	5	6	31
	4	6	2	20	10	5	43
	5	13	15	35	18	13	94
Total		36	29	86	48	29	228
Chi-Square Tests							
	Value	**df**	**Asymp. Sig. (2-sided)**				
Pearson Chi-Square	17.2182	16	0.37162				
Likelihood Ratio	19.1477	16	0.26108				
Linear-by-Linear Association	0.1785	1	0.67267				
N of Valid Cases	228						

Age of business owner/manager

Question 4 explored the age-range of the respondents (Table 25). The largest group of respondents 89 (38.53 percent) reported being at the age-range of 45 and 54, 87 respondents (37.66 percent) reported being at the age of over 55. The remaining respondents, 52 (22.80 percent), reported being at the age group of 35 to 25 years. No respondents reported being at the age of 24 or less.

Table 25: ***Age-range of respondents***

4. What is your age range?			
18-24	Value 1	0	0%
25-34	Value 2	12	5.19%
35-44	Value 3	40	17.32%
45-54	Value 4	89	38.53%
Over 55	Value 5	87	37.66%
Total		**228**	**100%**

Cross tab between the age-range of the respondents and their business category (Table 26) reveals that the percentage of respondents in the age range of 45 and over are proportionally almost the same in professional services businesses (76.92 percent) as in manufacturing and retail businesses (77.55 percent). A Chi-square test reveals no statistical significance of the relationship between these variables.

Table 26: ***Cross tab between business type and owner/manager age***

		Owner/manager age				Total
		2	**3**	**4**	**5**	
Buseniss type	**0**	9	21	50	50	130
	1	3	19	39	37	98
Total		12	40	89	87	228
Chi-Square Tests						
	Value	**df**	**Asymp. Sig. (2-sided)**			
Pearson Chi-Square	1.9492	3	0.5830			
Likelihood Ratio	2.0463	3	0.5629			
Linear-by-Linear Association	0.1051	1	0.7457			
N of Valid Cases	228					

Ownership status

Question 5 explored the ownership status of the business (Table 27). Out of the total respondents, 164 (71 percent) classified themselves as family-owned businesses, which are defined as majority ownership by one family. The remaining 64 (27.71 percent) respondents classified their businesses as non-family owned.

Table 27: *Ownership status of the business*

5. Is your business a family-owned business? (Majority ownership by one family)			
Yes	Value 0	164	71.00%
No	Value 1	64	27.71%
Total		**228**	**100%**

Cross tab of ownership status and business category (Table 28) reveals that the number of family owned businesses in the professional services category (84) is almost equal to the number of family ownership in the manufacturing and retail category (80). On the other hand, there were more companies in financial services (46) classified as family owned vs. those in the manufacturing and retail businesses (18). The Chi-square is high and highly significant with an asymptotic alpha of 0.0046. Thus, there is a significant preference of non-family owned business to choose business-services ventures.

Table 28: ***Cross tab of business ownership and business type***

		Buseniss type		Total
		1	2	
Ownership	0	84	80	164
	1	46	18	64
Total		130	98	228
Chi-Square Tests				
	Value	df	Asymp. Sig. (2-sided)	
Pearson Chi-Square	8.0142	1	0.00464	
Continuity Correction(a)	7.1935	1	0.00732	
Likelihood Ratio	8.2657	1	0.00404	
Fisher's Exact Test				
Linear-by-Linear Association	7.9790	1	0.00473	
N of Valid Cases	228			

Cross tab between business ownership and level of education of the owner/manager (Table 29) reveals that 119 respondents of family-owned businesses (72.56 percent) have a higher level of education (Bachelor's, Master's and Post Graduate), compare to 44 respondents associated with non-family-owned business (68.75). A Chi-square test shows no significance for the relationship between the ownership of the business and the education level of the respondent.

Table 29: ***Cross tab of business ownership and education-level of owner/manager***

		Owner/manager Education					Total
		1	2	3	4	5	
Ownership	0	27	18	67	28	24	164
	1	9	11	19	20	5	64
Total		36	29	86	48	29	228
Chi-Square Tests							
	Value	df	Asymp. Sig. (2-sided)				
Pearson Chi-Square	9.1654	4	0.0571				
Likelihood Ratio	9.0092	4	0.0609				
Linear-by-Linear Association	0.0024	1	0.9611				
N of Valid Cases	228						

Number of employees

Question 6 explored the number of employees in each company. This was an open-ended question, which allowed the respondent to indicate a specific number rather than a range. The raw data on the number of employees (and all the other questions) is presented in Appendix D. The value key to each of the questions is outlined in Appendix E.

The responses to question 6 have a range of 39, which represents the minimum number of one employee, and the maximum of 40 employees (Table 30). This range is consistent with the distribution of the number of employees of the members of the San Rafael Chamber of Commerce. The mean is 4.7237, with a standard deviation of 7.0486.

Table 30: *Statistical analysis of number of employees*

	Range	Minimum	Maximum	Mean		St_Dev	Variance	Skewness		Kurtosis	
				Statistic	Std. Error			Statistic	Std. Error	Statistic	Std. Error
Capacity	39	1	40	4.7237	0.4667	7.0466	49.6546	2.9813	0.1612	9.6204	0.3210

Note: Valid 228

The frequency distribution of number of employees is outlined in Table 31. Companies with one employee made up the largest group with 41.99 percent, followed two-employee companies 16.02. There frequency of number of employees diminishes as the number of employees per company increase. This is expected since the focus of the present study is on micro businesses, and for that reason we selected the sample from the membership of the San Rafael Chamber of Commerce.

Table 31: ***Frequency of companies by their number of employees***

Employees	Frequency	Percent
1	97	41.99
2	37	16.02
3	17	7.36
4	18	7.79
5	13	5.63
6	9	3.90
7	1	0.43
8	2	0.87
9	1	0.43
10	3	1.30
11	4	1.73
13	3	1.30
14	2	0.87
15	7	3.03
18	1	0.43
19	1	0.43
20	3	1.30
22	1	0.43
23	1	0.43
28	1	0.43
32	1	0.43
33	1	0.43
35	1	0.43
38	2	0.87
40	1	0.43
Total	228	100.00

Outside funding

Question 7 inquires about the outside funding status of the responding companies (Table 32). Of the total number of valid responses, 159 companies (69.74 percent) responded that they have not obtained outside funding for their business, whereas 69 respondents (30.25 percent) indicated that they have obtained founding from outside sources.

Table 32: ***Responses to outside funding question***

7. Have you ever obtained outside funding for your current business from sources such as a commercial bank, credit union, venture capital company, or angel investor?			
Yes	Value 0	69	30.26%
No	Value 1	159	69.74%
Total		**228**	**100%**

Cross tab between the age of the business and outside funding revels that more companies (65.27 percent), which have been in business ten or more years, have obtained outside funding than companies that have been in business less than ten years (34.73 percent). The Chi-square is highly significant indicating that the outside funding of the business is highly associated with the age of the business.

Table 33: ***Cross tab between age of the business and outside funding***

		Necessity		**Total**
		0	**1**	
Age of Business	**1**	3	14	17
	2	11	32	43
	3	3	28	31
	4	7	36	43
	5	45	49	94
Total		69	159	228
Chi-Square Tests				
	Value	**df**	**Sig. (2-sided)**	
Pearson Chi-Square	25.749	4	3.6E-05	
Likelihood Ratio	26.756	4	2.2E-05	
Linear-by-Linear Association	12.350	1	4.4E-04	
N of Valid Cases	228			

Formalized strategic planning

Question 8 explores the degree of formalized strategic planning among the respondents (Table 34). More than half (54.02 percent) of the responding companies indicated that they have no formalized strategic planning process in the business at all, one third of the respondents (33.77 percent) indicated that they have some degree of planning in their company, and only 26 (11.40 percent) respondents indicated that they have a long-range, written and formal strategic planning process in their company. These results are significant because they reveal that micro companies have a lower rate of formalized strategic planning (11.40 percent) than small businesses as a whole (18-20 percent).

Table 34: ***Degree of formalized planning among respondents***

8. Which of the following three definitions of planning best describes the planning status in your company?			
There is no measurable structured planning in the firm.	Value 1	125	54.02%
My company has a Written short-range operation budgets and plans of action for current fiscal period. The typical plan of action would include basic controls such as production quotas, cost constraints, and personnel requirements.	Value 2	77	33.77%
My company has a formalized, written long-range plans covering the process of determining major outside interests, focused on the organization; expectation of inside interests, information about past, current, and future performance; environmental analysis; and determination of strengths and weaknesses of the firm, and feedback. Typically 3-15 years in nature.	Value 3	26	11.40%
Total		**228**	**100%**

Cross tab between the age of the business and the existence of formalized strategic planning (Table 35) reveals that of the total number of companies that have been in business ten or more years (94 companies), exactly half (48 companies) have reported that they are not involved in formalized strategic planning. The remaining 49 companies have some degree of formalized strategic planning (32 companies), and 14 companies have a formal strategic plan. A Chi-square is not significant and therefore we can't associate the existence of formalized strategic planning in the business with the age of the business.

Table 35: ***Cross tab between the age of the business and formalized strategic planning***

		Strategy			Total
		1	2	3	
Age of Business	1	8	7	2	17
	2	26	13	4	43
	3	16	13	2	31
	4	27	12	4	43
	5	48	32	14	94
Total		125	77	26	228
Chi-Square Tests					
	Value	df	Sig. (2-sided)		
Pearson Chi-Square	4.7279	8	0.7862		
Likelihood Ratio	4.7437	8	0.7846		
Linear-by-Linear Association	0.4805	1	0.4882		
N of Valid Cases	228				

Cross tab between the Strategy (formalized strategic planning) and business type (Table 36) reveals that companies in the category of professional and business services are more likely to have a formalized strategic planning process (15.38 percent) than companies in the category of manufacturing and retail (6.12 percent). A Chi-square is not significant and therefore no association is evident between the existence of formalized strategic planning in the business and the classification of the business.

Table 36: ***Cross tab between formalized strategic planning and business type***

		Buseniss type		**Total**
		0	**1**	
Strategy	**1**	66	59	125
	2	44	33	77
	3	20	6	26
Total		130	98	228
Chi-Square Tests				
	Value	**df**	**Sig. (2-sided)**	
Pearson Chi-Square	5.1113	2	0.0776	
Likelihood Ratio	5.4160	2	0.0667	
Linear-by-Linear Association	4.1051	1	0.0428	
N of Valid Cases	228			

Mission statement

Question 9 explores the existence of a mission statement in the responding companies (Table 37). The results indicate that 43 companies (18.61 percent) do not have a written mission statement that includes any of the nine components outlined in table 36. The remaining respondents reported various degrees of inclusion of the nine components. The most widely-use components are: geographic market (10.99 percent), technology (10.99 percent), growth and profit (9.96 percent), and the philosophy of the company (9.96 percent).

Table 37: ***Existence of mission statement component among respondents***

9. A written mission statement includes the following nine components. Which of these components, if any, exist in writing at your company? (Select all that apply).			
*No selection	Value 0	43	18.61%
Customers (the target market)	Value 1	12	5.19%
Products/Services (offerings and value provided to customers)	Value 2	16	6.93%
Geographic Markets (where the firm seeks customers)	Value 3	24	10.39%
Technology (the technology used to produce and market products)	Value 4	24	10.39%
Concern for Survival/Growth/ Profits (the firm's concern for financial soundness)	Value 5	23	9.96%
Distinctive Competence (how the firm is different or better than competitors).	Value 6	30	12.99%
Philosophy (the firm's values, ethics, beliefs)	Value 7	23	9.96
Public Image (contributions the firm makes to communities)	Value 8	12	5.19%
Employees (the importance of managers and employees)	Value 9	21	9.09%

Note: 45 respondents (18.61%) did not select any of the above components.

Data testing and Analysis

This section of Chapter four reports the results of the statistical tests and analysis of the hypotheses as outlined in Chapter three. The literature has established that the size of a company, measured by the number of its employees, is positively associated with incidence of formalized strategic planning at that company (Matthews and Scott, 1995; Orser et al, 2000; Gibson and Cassar et al, 2002). The hypotheses established in the present study also examine two specific mediating variables (Necessity and Clarity) and their impact on the relationship between a company's size and incidence of formalized strategic planning.

Descriptive Statistics

The descriptive statistics (Mean, Standard deviation, Skewness and Kurtosis) of the data collected are outlined in Table 38. Strategy (incidence of strategic planning), Necessity (use of outside funding), Capacity (number of employees) and Clarity (existence of a value system) are the variables associated with the hypotheses tested in the present study. The remaining variables are control variables, two of which are dummy (type of company and ownership of company), and three others that characterize the business (owner's age, business age and owner's education level). These were included in the study to test whether they have any significant influence on the relationship between the independent variables and the dependent variable in the present study.

Table 38: ***Descriptive Statistics***

	Minimum	Maximum	Mean	St Dev	Skewness		Kurtosis	
					Statistic	Std. Error	Statistic	Std. Error
Strategy	1	3	1.57	0.69	0.82	0.16	-0.53	0.32
Clarity	0	9	4.18	2.93	0.00	0.16	-1.16	0.32
Capacity Group	1	5	2.66	1.76	0.43	0.16	-1.62	0.32
Business Type	0	1	0.43	0.50	0.29	0.16	-1.94	0.32
Business Age	1	5	3.68	1.37	-0.55	0.16	-1.11	0.32
O/M Education	1	5	3.02	1.22	-0.15	0.16	-0.74	0.32
O/M Age	1	5	4.10	0.87	-0.68	0.16	-0.31	0.32
Ownership	0	1	0.28	0.45	0.98	0.16	-1.04	0.32
Necessity	0	1	0.70	0.46	-0.86	0.16	-1.26	0.32

Valid N (listwise) ***N = 228***

It will be noted that the null hypothesis regarding the distributions of each of the variables, namely that there is no significant skewness or significant kurtosis is not rejected as the standard error in all cases exceed the 5% level.

It is important to note that the variable Capacity Group consists of five groups of number of employees. The first group consists of 97 companies with one employee (41.99 percent). The second group consists of 37 companies with two employees (16.02 percent). The third group consists of 17 companies with three employees (7.36 percent). The fourth group consists of 31 companies with four or five employees (13.59 percent). The fifth group of 46 companies consists of companies with more than five employees (20.17 percent).

Pearson Correlation Coefficients

The correlation between each pair of the variables is presented in Table 39. There are a few important observations related to the correlation between the variable. Strategy (formal strategic planning) and Clarity (written mission statement) are highly correlated at 0.5430 with a high significance level 0f $\alpha < 0.05$. Similarly, Strategy (formalized strategic planning) and ownership type are highly correlated at 0.2523 with a high significance level of $\alpha < 0.05$. We also found that Capacity Group (number of employees) and the business age are highly correlated at 0.4132 with a high significance level of $\alpha < 0.05$.

Table 39: ***Correlation Coefficients***

	Clarity	Business type	Capacity groups	Ownership	Necessity	Business age	Education	CEO age
Strategy	**0.5430** 0.0001	**-0.1345** 0.0425	**0.1749** 0.0081	**0.2523** 0.0001	-0.1104 0.0963	0.0460 0.4894	0.0376 0.5723	-0.1099 0.0978
Clarity		-0.0656 0.3240	0.1116 0.0927	0.1086 0.1018	-0.1164 0.0795	0.1179 0.0755	0.0458 0.4909	-0.0503 0.4498
Business type			0.1016 0.1263	**-0.1875** 0.0045	-0.1030 0.1209	**-0.2346** 0.0004	**-0.2562** 0.0001	0.0215 0.7465
Capacity groups				0.1052 0.1133	**-0.3249** 0.0000	**0.4132** 0.0001	-0.1294 0.0510	0.0185 0.7813
Ownership					0.0928 0.1625	0.0341 0.6087	-0.0032 0.9612	-0.0051 0.9388
Necessity						**-0.2333** 0.0004	0.0433 0.5153	**-0.1430** 0.0308
Business age							0.0280 0.6736	**0.2303** 0.0005
Education								0.0725 0.2754

Hypotheses testing

Capacity and Necessity correlation

H1. Capacity is positively associated with Necessity. The larger the size of the company in terms of number of employees (Capacity Group), the greater the need for outside funding (Necessity). This hypothesis test explores whether a company's size (Capacity) has an impact on the need for outside funding (Necessity) of micro companies.

An examination of the relationship between the DV Necessity and the IV Capacity Group reveals a correlation coefficient of -0.3249 (figure 6), and high significance level with $\alpha < 0.05$.

A negative correlation coefficient between Capacity Group and Necessity is expected because the number of employees in Capacity Group goes from low to high.

Based on the results of this test, H1 is supported, and we can generalize that the greater the number of employees in a company, the greater the use of outside funding sources.

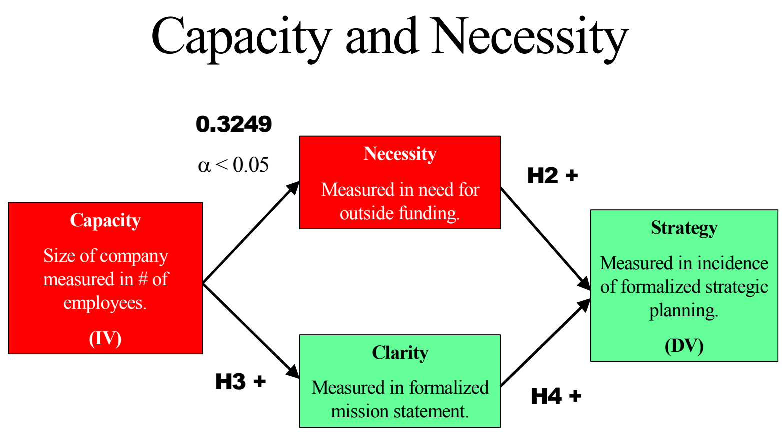


Figure 6: H1 Correlation Coefficient

Necessity and strategy correlation

H2. . Necessity is positively associated with Strategy. The greater the need for outside funding (Necessity), the higher the incidence of formalized strategic planning (Strategy). This hypothesis is testing the relationship between the need for outside capital (Necessity) and incidence of formalized strategic planning (Strategy).

An examination of the relationship between the DV Strategy and the IV Necessity reveals a correlation coefficient of -0.1104 (figure 7). However, the significance level is low with $\alpha > 0.05$. Note that the negative sign is the result of the coding of necessity: 0

was yes and 1 was no. Hence, the correlation between the 'true' necessity and strategy is positive, albeit not statistically significant.

Based on the results of this test, H2 is not supported. This is an important finding because it may point to a trend in sources for outside funding of micro businesses. The literature review on this subject, which spans to the past 15 years, did suggest a link between the need for outside finding and formalized strategic planning. However, it is very likely that the sources for outside funding have shifted in the last 10-15 years. At the time that the studies in the literature were conducted, bank loans were in greater use by micro businesses, which necessitated a development of a formal strategic plan. It appears that now days micro businesses opt to obtain outside funding from credit cards and/or home equity loans, which do not require submission of a formalized strategic plan.

Necessity and Strategy

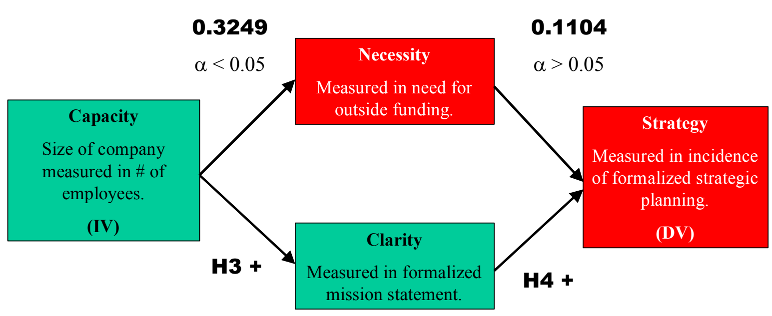


Figure 7: H2 Correlation Coefficient

Capacity and clarity correlation

H3. Capacity is positively associated with Clarity. The larger the size of the company in terms of number of employees (Capacity Group), the higher the incidences of a written mission statement (Clarity). This hypothesis is testing the relationship between the IV (Capacity Group) and the existence of a value system, which manifests itself in the form of a written mission statement.

An examination of the relationship between the DV Clarity and IV Capacity Group reveals a correlation coefficient of 0.1116 (figure 8). However, this correlation is not statistically significant at $\alpha > 0.05$. Based on the results of this test, H3 is not supported. The findings of this test is related mainly to the size of micro companies, and the distribution of the sample. Our sample included 97 micro companies (41.99 percent) with one employee (only the owner), and 39 micro companies (16.07 percent) with two emaployees. It is highly conceivable that a one or two-person company, which made up more than half of the sample, will not have the time and/or resources to develop a written mission statement for the company.

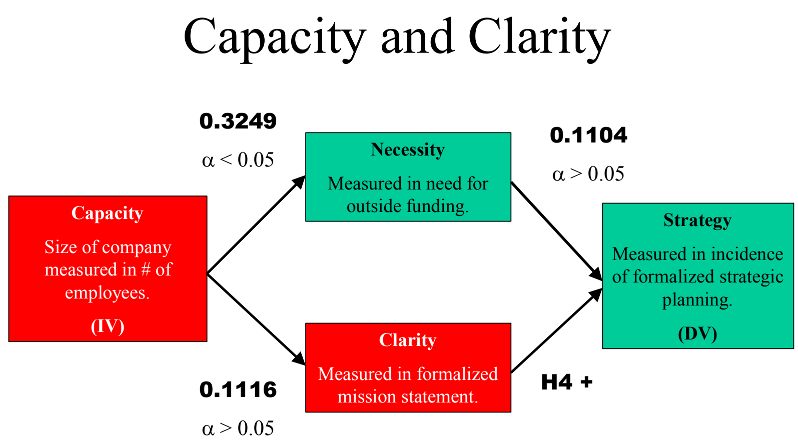


Figure 8: H3 Correlation Coefficient

Clarity and strategy correlation

H4. Clarity is positively associated with Strategy. The higher the incidence of a written mission statement, the higher the incidence of formalized strategic planning (Strategy). This hypothesis is testing the relationship between incidence of a written mission statement (Clarity) and incidence of formalized strategic plan (Strategy).

An examination of the relationship between the DV Strategy and IV Clarity reveals a correlation coefficient of 0.5430 (figure 9), and high significance level with $\alpha < 0.01$. Based on the results of this test, H4 is supported, and we can generalize that the higher the incidence of written mission statement, the higher the incidence of formalized strategic planning.

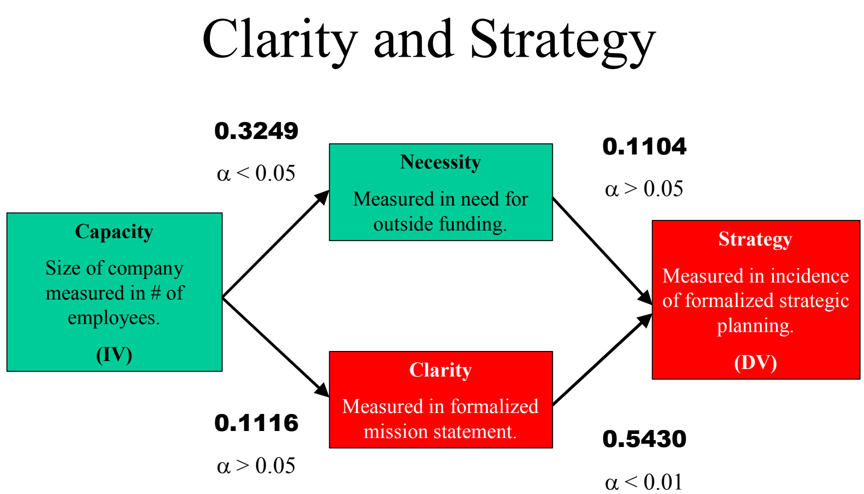


Figure 9: H4 Correlation Coefficient

Regression Analysis

We conducted single regression analysis of the variables in accordance to the formulas we established in our methodology (Chapter 3). In addition, we included multiple regression analysis of variables that we found the have some degree of influence on the outcome.

Regression of Necessity and Capacity Group

We tested the linear relationship between the IV Capacity Group (number of employees) and DV Necessity (Use of outside funding), and we found that 10.55 percent of the variance of Necessity is explained by Capacity Group. The regression coefficient however was highly significant at $\alpha < 0.01$. We tested these two variables using the formula: Necessity = a + b x Capacity Group. In addition, we conducted an Analysis of Variance (ANOVA), and we found F of 26.666, with a significance of less than 0.01 (Table 40).

Table 40: Regression of Necessity and Capacity Group

Model Summary

R	R Square	Adjusted R^2	SEE
0.3249	0.1055	0.1016	0.4364

a Predictors: (Constant), Capacity groups

ANOVA

	SS	df	MSq	F	Sig.
Regression	5.0784	1	5.07838	26.66618	0.00000
Residual	43.0400	226	0.19044		
Total	48.1184	227			

a Predictors: (Constant), Capacity groups
b Dependent Variable: Necessity

Regression Coefficients

	Unstandardized Coefficients			t	Sig.
	B	Std. Error	Beta		
(Constant)	0.9320	0.0538		17.3082	0.0000
Capacity groups	-0.0929	0.0180	-0.3249	-5.1639	0.0000

a Dependent Variable: Necessity

Regression of Strategy and Necessity

We tested the linear relationship between the IV Necessity (Use of outside funding) and DV Strategy (formalized strategic planning), and we found that only 1.22 percent of the variance of Strategy is explained by Necessity. The regression coefficient was not significant at 0.0963. We tested these two variables using the formula: Strategy = a + b x Necessity. In addition, we conducted an ANOVA, and we found F of 2.789, with a significance of 0.0963 (Table 41).

Table 41: ***Regression of Strategy and Necessity***

Model Summary

R	R Square	Adjusted R^2	SEE
0.1104	0.0122	0.0078	0.6871

a ***Predictors: (Constant), Necessity***

ANOVA

	SS	df	MSq	F	Sig.
Regression	1.317	1	1.3170	2.7895	0.0963
Residual	106.696	226	0.4721		
Total	108.013	227			

a ***Predictors: (Constant), Necessity***
b ***Dependent Variable: Strategy***

Regression Coefficients

	Unstandardized Coefficients		Beta	t	Sig.
	B	Std. Error			
(Constant)	1.6812	0.0827		20.3242	0.0000
Necessity	-0.1654	0.0991	-0.1104	-1.6702	0.0963

a ***Dependent Variable: Strategy***

Regression of Clarity and Capacity Group

We tested the linear relationship between the IV Clarity (written mission statement) and DV Capacity Group (Number of employees), and we found that only 1.25 percent of the variance of Capacity Group is explained by Clarity. The regression coefficient was not significant at 0.0927. We tested these two variables using the formula: Capacity Group = a + b x Clarity. In addition, we conducted an ANOVA, and we found F of 2.8517, with a significance of 0.0927 (Table 42).

Table 42: ***Regression of Clarity and Capacity Group***

Model Summary

R	R Square	Adjusted R^2	SEE
0.1116	0.0125	0.0081	2.9143

a ***Predictors: (Constant), Capacity groups***

ANOVA

	SS	df	MSq	F	Sig.
Regression	24.219	1	24.2194	2.8517	0.0927
Residual	1919.408	226	8.4930		
Total	1943.627	227			

a ***Predictors: (Constant), Capacity groups***
b ***Dependent Variable: Clarity***

Regression Coefficients

	Unstandardized Coefficients			t	Sig.
	B	Std. Error	Beta		
(Constant)	3.6675	0.3596		10.1991	0.0000
Capacity groups	0.2028	0.1201	0.1116	1.6887	0.0927

a ***Dependent Variable: Clarity***

Regression of Strategy and Capacity Group

We tested the linear relationship between the IV Capacity Group (number of employees) and DV Strategy (incidence of strategic planning), and we found that only 2.72 percent of the variance of Strategy is explained by Capacity Group. The regression coefficient however was highly significant at 0.0127. We tested these two variables using the formula: Strategy = a + b x Capacity Group. In addition, we conducted an Analysis of Variance (ANOVA), and we found F of 6.3163, with a significance of 0.0127 (Table 43).

Table 43: *Regression of Strategy and Capacity Group*

Model Summary

	R	R Square	Adjusted R^2	SEE
	0.1649	0.0272	0.0229	0.6819
a	Predictors: (Constant), Capacity Group			

ANOVA

Model		SS	df	Mean Sq	F	Sig.
1	Regression	2.9367	1	2.9367	6.3163	0.0127
	Residual	105.0764	226	0.4649		
	Total	108.0132	227			

a ***Predictors: (Constant), Capacity Group***
b ***Dependent Variable: Strategy***

Regression Coefficients

	Unstandardized Coefficients			t	Sig.
	B	Std. Error	Beta		
(Constant)	1.3942	0.0819		17.0325	0.0000
Capacity Group	0.0644	0.0256	0.1649	2.5132	0.0127

a ***Dependent Variable: Strategy***

Regression of Strategy and Clarity

We tested the linear relationship between the Strategy (incidence of strategic planning) and Clarity (existence of a value system), and we found that 29.49 percent of the variance of Strategy is explained by Clarity. The regression coefficient was highly significant at $\alpha < 0.01$. We tested these two variables using the formula:

Strategy = a + b x Clarity. In addition, we conducted an ANOVA test, and we found F of 94.5451, with a significance of less than 0.01 (Table 44).

Table 44: ***Regression of Strategy and Clarity***

Model Summary

R	R Square	Adjusted R^2	SEE
0.5430	0.2949	0.2917	0.5805

a ***Predictors: (Constant), Clarity***

ANOVA

Model		SS	df	Mean Sq	F	Sig.
1	Regression	31.8491	1	31.8491	94.5051	0.0000
	Residual	76.1641	226	0.3370		
	Total	108.0132	227			

a ***Predictors: (Constant), Clarity***
b ***Dependent Variable: Strategy***

Regression Coefficients

Model		Unstandardized Coefficients		Beta	t	Sig.
		B	Std. Error			
1	*(Constant)*	1.03073	0.06714		15.35259	0.00000
	Clarity	0.12801	0.01317	0.54301	9.72137	0.00000

a ***Dependent Variable: Strategy***

Regression of Strategy, Capacity Group and Clarity.

We tested the linear relationship between the DV Strategy (incidence of strategic planning), the IV Capacity Group (number of employees), and the IV Clarity (existence of a value system). Using the number of employees as a proxy for the size of the enterprise we found that 30.81 percent of the variance of Strategy is explained by Capacity Group and Clarity. We noted that the R-squared of this multiple regression is greater than each of the IV separately. We tested these three variables using the formula: Strategy = a + b x Capacity Group + c x Clarity. The regression equation was highly significant. Both independent variables have positive and significant regression coefficients although the variable "Capacity Group" had lower significance of the correlation coefficient as seen in Table45. In addition, we conducted an ANOVA test, and we found F of 50.0923, with a significance of less than 0.01 (Table 45).

Table 45: ***Regression of Strategy, Clarity and Capacity Group***

Model Summary

R	R Square	Adjusted R^2	SEE
0.5551	0.3081	0.3019	0.5763

a ***Predictors: (Constant), CLARITY, Capacity groups***

ANOVA

	SS	df	MSq	F	Sig.
Regression	33.2773	2	16.6386	50.0923	0.0000
Residual	74.7359	225	0.3322		
Total	108.0132	227			

a ***Predictors: (Constant), CLARITY, Capacity groups***
b ***Dependent Variable: STRATEGY***

Regression Coefficients

	Unstandardized Coefficients			t	Sig.
	B	Std. Error	Beta		
(Constant)	0.9183	0.0859		10.6857	0.0000
Capacity groups	0.0496	0.0239	0.1157	2.0736	0.0393
CLARITY	0.1250	0.0132	0.5301	9.4994	0.0000

a ***Dependent Variable: STRATEGY***

Regression of Strategy, Clarity, Capacity Group and Ownership

We tested the relationship between the DV Strategy (incidence of strategic planning) and the IV Clarity (written mission statement), IV Capacity Group (number of employees), and the dummy variable Ownership in order to examine whether the ownership of the enterprise ‘makes a difference’. Stated differently, we tested whether the nature of the (linear) relationship between Capacity Group and Clarity and the dependent variable Strategy are affected by the type of ownership. To this end we ran the regression equation Strategy = a + b x Clarity + c x Capacity Group + d x Ownership. The results are displayed in Table 46. Ownership was defined as a zero-one variable where zero applies to family-owned business and one to non-family owned business. In addition, we conducted an ANOVA test, and we found F of 38.826, with a significance of less than 0.01 (Table 46).

Table 46: ***Regression of Strategy, Clarity, Capacity Group and Ownership (dummy)***

Model Summary

	R	R Square	Adjusted R^2	SEE
	0.5849	0.3421	0.3333	0.5632
a	***Predictors: (Constant), OWNERSHIP, Capacity groups, CLARITY***			

ANOVA

	SS	df	MSq	F	Sig.
Regression	36.951	3	12.317	38.826	0.000
Residual	71.062	224	0.317		
Total	108.013	227			

a ***Predictors: (Constant), OWNERSHIP, Capacity groups, CLARITY***
b ***Dependent Variable: STRATEGY***

Regression Coefficients

	Unstandardized Coefficients				
	B	Std. Error	Beta	t	Sig.
(Constant)	0.8751	0.0849		10.3041	0.0000
Capacity groups	0.0420	0.0235	0.0982	1.7918	0.0745
CLARITY	0.1207	0.0129	0.5118	9.3398	0.0000
OWNERSHIP	0.2855	0.0839	0.1864	3.4032	0.0008

a ***Dependent Variable: STRATEGY***

Regression of Strategy, Ownership and Capacity Group

We tested the relationship between the DV Strategy (incidence of strategic planning) and the dummy variable Ownership, and IV Capacity Group (number of employees), and the in order to examine whether the ownership of the enterprise 'makes a difference'. Stated differently, we tested whether the nature of the (linear) relationship between Capacity Group and the dependent variable Strategy are affected by the type of ownership. To this end we ran the regression equation Strategy = a + b x Capacity Group + c x Ownership. The results are displayed in Table 47. Ownership was defined as a zero-one variable where zero applies to family-owned business and one to non-family owned business. In addition, we conducted an ANOVA test, and we found F of 10.5758, with a significance of less than 0.01 (Table 47).

Table 47: ***Regression of Strategy, Ownership and Capacity Group***

Model Summary

R	R Square	Adjusted R^2	SEE
0.2931	0.0859	0.0778	0.6624

a ***Predictors: (Constant), OWNERSHIP, Capacity groups***

ANOVA

	SS	df	MSq	F	Sig.
Regression	9.2782	2	4.6391	10.5718	0.0000
Residual	98.7349	225	0.4388		
Total	108.0132	227			

a ***Predictors: (Constant), OWNERSHIP, Capacity groups***
b ***Dependent Variable: STRATEGY***

Regression Coefficients

	Unstandardized Coefficients			t	Sig.
	B	Std. Error	Beta		
(Constant)	1.3018	0.0842		15.4585	0.0000
Capacity groups	0.0642	0.0275	0.1500	2.3405	0.0201
OWNERSHIP	0.3623	0.0982	0.2365	3.6899	0.0003

a ***Dependent Variable: STRATEGY***

Since as stated above the Ownership variable was coded 0 (family-owned) and 1 (non-family-owned) and its regression coefficient was found to be significantly different from zero, we can conclude that there are actually two regression equations, one for family-owned business and one for non-family owned business. The two regression equations are as follows:

Family-owned (value 0): Strategy = 1.3018 + 0.0642 x Capacity Group

Non-family owned (value 1): Strategy = 1.6641 + 0.0642 x Capacity Group

Regression of DV Strategy with all of the control variables

We tested the relationship between the DV Strategy (incidence of strategic planning) and the control variables Ownership, Capacity Group, business type, Clarity, owner/manager education, and age of business in order to find out which variables have significant influence on the DV Strategy.

We found that only Clarity (0.526), Capacity Group (0.161), business Type (0.150), and business Age (0.1278) are significant. (The numbers in parentheses are the standardized beta coefficient of each IV). The variables Necessity and the Educational level of the owner/manager have no significant influence on Strategy. The results of this multiple regression are presented in Table 48.

Table 48: ***Regression of DV Strategy with all of the control variables***

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	35.763	6	5.961	18.232	.000
Residual	72.250	221	.327		
Total	108.013	227			

a. Predictors: (Constant), Capacity Group, Business Type, Clarity, owner/manager education, Necessity, Business Age
b. Dependent Variable: Strategy

Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.249	.200		6.255	.000
Necessity	-6.223E-02	.089	-.042	-.701	.484
Clarity	.124	.013	.526	9.414	.000
Business Type	-.209	.084	-.150	-2.500	.013
Business Age	-6.386E-02	.032	-.127	-1.981	.049
Owner/Mgr. education	-2.391E-04	.032	.000	-.007	.994
Capacity Group	6.306E-02	.025	.161	2.523	.012

a Dependent Variable: Strategy

Mediation test: Necessity and Clarity

We tested the mediation between Necessity and Clarity (mediating variables), and we found that there is no significant mediation effect here (Table 48). In addition, we tested the mediation between Necessity and Capacity Group, which is presented in Table 49.

Table 49: ***Mediation test: Necessity and Clarity***

Model Summary

R	R Square	Adjusted R^2	SEE
0.1164	0.0135	0.0092	2.9127

a ***Predictors: (Constant), Necessity***

ANOVA

	SS	df	MSq	F	Sig.
Regression	26.3267	1	26.3267	3.1032	0.0795
Residual	1917.3005	226	8.4836		
Total	1943.6272	227			

a ***Predictors: (Constant), Necessity***
b ***Dependent Variable: CLARITY1***

Regression Coefficients

	Unstandardized Coefficients			t	Sig.
	B	Std. Error	Beta		
(Constant)	4.6957	0.3506		13.3915	0.0000
Necessity	-0.7397	0.4199	-0.1164	-1.7616	0.0795

a ***Dependent Variable: CLARITY1***

Mediation tests: Necessity and Capacity Group

We conducted a mediation test to examine whether Necessity has a mediating effect on Capacity Group, and we found that there is mediation between the IV Capacity

Group, and the Necessity. We found that Necessity (use of outside funding), is mediating with a very high significance level of less than 0.01 (Table 49).

Table 50: ***Mediation tests: Necessity and Capacity Group***

Necessity and Capacity Group

Model Summary

R	R Square	Adjusted R^2	SEE
0.3249	0.1055	0.1016	0.4364

a Predictors: (Constant), Capacity groups

ANOVA

	SS	df	MSq	F	Sig.
Regression	5.0784	1	5.07838	26.66618	0.00000
Residual	43.0400	226	0.19044		
Total	48.1184	227			

a Predictors: (Constant), Capacity groups
b Dependent Variable: Necessity

Regression Coefficients

	Unstandardized Coefficients			t	Sig.
	B	Std. Error	Beta		
(Constant)	0.9320	0.0538		17.3082	0.0000
Capacity groups	-0.0929	0.0180	-0.3249	-5.1639	0.0000

a Dependent Variable: Necessity

The results of the regression suggest that Necessity is negatively affected by Capacity Group but note that Necessity was defined as zero if the organization did approach outside funding and one if it did not. Hence – the true relationship is positive with a slope coefficient of +0.0929, and highly significant.

Mediation test: Strategy, Capacity Group and Necessity

When we tested the regression of the DV Capacity Group and the IV Strategy (Table 43) we found that Strategy = 1.394 + 0.06445 Capacity Groups, and that the coefficient is highly significant with $\alpha < 0.01$. Then we inserted Necessity to test what, if any, influence Necessity has on the relationship between Strategy and Capacity group, and we found that Strategy = 1.482 + 0.05636 Capacity Groups + 0.0948 Necessity, and the coefficient of Necessity is NOT statistically different from zero. Therefore, we concluded that Necessity is not mediating between Strategy and Capacity Group.

Note that necessity was a dummy variable (0 or 1) so the tests are actually on whether the intercept coefficient and/or the slope coefficients of the relationship between Capacity Groups and Strategy are affected by the variable "Necessity". The results are negative: Necessity does not affect the relationship, either the 'intercept' or the 'slope' because its coefficient is not significantly different from zero.

Mediation test: Capacity Group, Clarity and Necessity

We conducted a mediation test to examine whether Necessity has a mediating effect on the relationship between Capacity Group and Clarity. We conducted this test in two stages. Recall that the regression of Clarity (IV) in Strategy (DV) yielded significant results as follows: $R = 0.543$; $R^2 = 0.295$; Adjusted $R^2 = 0.292$; ANOVA: $F = 94.50$; Significance: 0.000. The regression equation was DV = 1.031 + 0.128 IV with t-value of 9.721 highly significant. Now we added the IV Necessity to the regression. The results are reported in Table 51.

Table 51:*Regression of Clarity and Necessity (IV) on Strategy (DV)*

	Unstandardized Coefficients		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.0862	0.0937		11.5988	0.0000
CLARITY	0.1267	0.0133	0.5374	9.5504	0.0000
Necessity	-0.0717	0.0843	-0.0479	-0.8507	0.3959

Dependent Variable: STRATEGY

Then we inserted Necessity in to the regression analysis, and found: R = 0.545; R^2 = 0.297; Adjusted R^2 = 0.291; ANOVA: F = 47.557; Significance: 0.000.

The regression equation was: DV = 1.086 – 0.07172 Necessity + 0.127 Clarity. With t-values: 0.851 for Necessity (insignificant) and 9.550 for Clarity (highly significant). Furthermore, when we compared the regression coefficient of Strategy and Clarity alone (0.128) with the regression coefficient after the inclusion of Necessity (0.127), we conclude that Necessity has no impact on the relationship between Strategy and Clarity.

CHAPTER 5 – DISCUSSION AND IMPLICATION OF THE RESEARCH

Overview

This chapter contains a discussion of the findings in relation to the research questions and explanation of the implication of the research on the body of knowledge in the area of formalized strategic planning of micro companies. In addition, this chapter includes recommendations for educators and practitioners, and provides suggestions for future research.

The present study was established for two main reasons. The first is to better understand a phenomenon that I came across throughout the many years of business consulting to micro companies, which is the lack of formalized planning among these companies. The second is the desire to validate previous findings about the relationship between a company's size and incidence of formalized strategic planning, which were established by Matthews and Scott, 1995, Orser et al, 2000, and Gibson and Cassar et al, 2002; and to test the impact of two mediating variables, the need for outside funding (Necessity), and the existence of a value system (Clarity), and five control variables (Ownership, age of business, age of owner/manager, business type and owner/manager education) on the relationship between a company's size and formalized strategic planning.

All in all, the present study was successful in providing incremental knowledge on the relationship between a company's size and formalized strategic planning, which can be utilized for further research in this area, and provide meaningful insight on this topic for business educators and practitioners. The findings of the present study have some very practical implications, which are discussed in detail later on in this chapter.

Discussion

Formalized strategic planning

The topic of formalized strategic planning has always been of interest to me, especially in the context of micro businesses. Strategic planning, which was developed by Fortune 500 companies, as in the case of GE and Six Sigma, was designed to help these companies follow a clear path to their future success and prosperity much like airline pilots and sea capitals chart their course to reach their destination.

The literature offers an abundance of empirical studies on the impact of formalized strategic planning on the longevity and profitability of businesses. The literature also provides evidence that large companies practice formalized strategy planning on a regular basis. When it comes to smaller companies and start-ups the picture is somewhat different – for the most part they do not formally plan.

The challenge in fully understanding the relationship between a company's size and its practice of formalized strategic planning is that there are many variables that may influence such a relationship and it is almost impossible to fully capture the dynamics between these two variables. Nevertheless, the present study was successful in identifying and testing the significance of the relationship of some of the variables and the incidence of formalized strategic planning among micro companies.

Perhaps the most important observation of the present study is that incidence of formalized strategic planning (Strategy) in the context of a company's size can be influenced by certain variables. For example, when we ran a multiple regression analysis including the variables Capacity Group (number of employees) and Clarity (written mission statement) as independent variables, we noticed that 30.81 percent of the variance of Strategy is explained by these two variables. This finding is significant because it means that if smaller companies will develop a value system, by way of writing a mission statement, (Clarity), they are more likely to eventually develop a formal strategic plan.

One practical aspect of this finding is to suggest that when smaller companies first develop a value system, they are more likely to later develop a formalized strategic plan. Such an association may help educators and practitioners in evaluating the probability of a small business owner/manager to have a formalized strategic plan at some point.

Even more interesting is the observation that when we added a control variable ownership, i.e. family-owned business or not, (as a dummy variable) to the multiple regression above, we found that there is a significant difference in the relationship of Capacity Group and Clarity and Strategy (formalized strategic planning). This finding suggests that given the same company size (Capacity Group), family-owned businesses are less likely to develop a formalized strategic plan than non-family owned companies. One explanation based on familiarity with micro business enterprises is that non family owned companies are subject to outside control (Board of Directors, shareholders etc.) that may have an influence on the decision to develop a formal strategic plan.

The combination of these two findings can be very helpful to educators and consultants to family-business because it provides an insight into the path to formalized strategic planning. For researchers, these findings may act as a starting point for further research into more specific analysis and understanding of the influence of a value system on incidence of formalized strategic planning among family-owned businesses.

Company size and formalized planning

The relationship between a company's size and formalized planning is counter-intuitive. From a logical standpoint, one might assume that smaller companies and start ups are those that will invest time and resources in formalized strategic planning because they are in the beginning of their business journey, and as the saying goes "if you do not know where you are going, you may end up anywhere". Yet, as we have seen from this study, and from previous research, the opposite is true – the smaller the company, in terms of number of employees, the less the incidence of formalized strategic planning.

An interesting observation from the present study is the finding that there is a high correlation coefficient (0.1743) between Strategy and Capacity Group. This suggests that at a certain level of employee-number, small business owners are able to delegate the task of formalized strategic planning to one of the employees that otherwise might not be done. From my personal experience with small businesses, I find this observation to be consistent with the reality in the market place.

Throughout my career, I have acted as a consultant to hundreds of micro companies and start ups, and I always found it intriguing that a business owner is willing to invest time and money in operational and tactical areas, such as technology and advertising, yet he or she is not willing to do the same with one of the most important elements of their business – establishing a clear and logical path for their business success through formalized strategic planning.

In the present study, the numbers of micro businesses that formally plan came to only 11.40 percent; those that did some degree of operational planning 33.77 percent, and those that did not practice any planning 54.02 percent. This is a very significant finding for two reasons. The first reason is the affirmation of the literature that there is a relationship between a company's size and incidence of formalized strategic planning. The second reason, which is even more significant, is that there is a difference in the rate of formalized strategic planning even among small companies. Previous studies on the relationship between a company's size and formalized strategic planning (Gibson and Cassar et al, 2002), studied small companies with up to 200 employees. Their finding was that an average of 34.7 percent of the companies engaged in planning during a three-year period, and 18.91 percent of the companies planned on a regular basis. The comparison to the Gibson and Cassar et al study is relevant, because they have defined planning as: "documented formal strategic plan; formal business plan?" The present study, however, which focused on micro companies, with the highest limit of number of employees at 40, found that only 11.40 percent of micro companies practice any type of formalized strategic planning. Thus, we can conclude that the relationship between a company's size and incidence of formalized strategic planning is even more significant when it comes to micro companies, and that micro companies are less likely to formally plan than small businesses as a whole.

This phenomenon was also confirmed by my personal experience providing business counseling to micro business. I found that about one out of every ten micro companies practiced formalized strategic planning, and a handful had some level of operational planning in the form of profit and loss statement, list of major clients, action plan and product or service description.

Another interesting observation from my practice was that those same business owners/managers practice formalized planning in other aspects of their lives, just not in the business. For example, many of them have a retirement plan, a plan for buying a car, or going on vacation, yet not for the business. I used to ask my clients if they test-drive a new car before they buy it. They all said yes. My follow up question was “why won’t you test drive your business on paper (strategic plan) before you invest in it?”

The broad issue of business planning environmental and personal aspects is outside the scope of this study. Nevertheless, the finding of this and other similar studies, which indicate that most small companies do not practice formalized strategic planning, is of high importance to academia as well as practitioners. The main reason is that there is empirical evidence on the link between formalized strategic planning and business success. Research carried out on the relative effects of planning on the sales and profit performance of micro businesses has found positive relationships between the planning function and sales/profits (Ackelsburg and Arlow, 1985; Bracker and Pearson, 1986; Jones, 1982; Schwenk and Shrader, 1993).

When we place this important finding on the backdrop of the large number of small-business failure in the US, one must ask why formalized strategic planning isn’t an integral part of any small business and start-up companies. To put things in prospective, The Small Business Administration (2006) reported that during 2005, there were 671,800-business start ups, and during the same time, 580,400 small businesses failed. This is a failure rate of about 87 percent. Considering the amount of financial loss and emotional impact, one would expect formalized strategic planning to play a bigger role in the landscape of business education and business practice.

The good news is that incidence of formalized strategic panning does increase among larger companies, and thus their probability of success. The unfortunate part is that some or many of the smaller companies that failed in their early stages could have survived had they practiced formalized strategic planning when they needed it the most – during their start up and early stage.

The impact of Necessity

The present study demonstrated a significant correlation (0.3249) between the size of a company (Capacity Group) and the use of outside funding sources (Necessity). Small size enterprises are in larger need for outside funds. This means that smaller companies do not enjoy the same funding opportunities as larger ones. This finding, although unfortunate, is the reality that small companies have to face in the marketplace, which is that traditional lending institutions, such as banks and credit unions, are not as eager to lend to companies with less than three years of profitable operation. To put things in prospective, a start up may operate the first two or three years in the red before they can turn a profit, which means that it may take them five or six years before they can approach a lending institution for funding.

This situation has created a reality that is explained in part by the present study. When we combine the correlation between a company's size and outside funding to the decline in small business loans among banks and credit unions, and to the increase in credit card use, we can assume that small companies and start ups are using personal credit cards to fund their business operation. This practice partly explains why smaller companies do not practice formalized strategic planning when financing through credit cards. It is simply because credit card companies do not require such a practice from businesses, and definitely not for personal credit cards.

In a way the issue of outside funding is a vicious circle. Small companies and start-ups need outside funding because they do not have enough operating income to finance their future growth. Lending institutions do not typically lend to these companies because of their high risk of failure. As a result, small companies and start-ups do not have to produce a formal strategic plan to a lending institution, which increases their probability of failure.

Another aspect of the need for outside funding (Necessity) is its negative, albeit not statistically significant, correlation with incidence of formalized strategic planning (Strategy). We found that there is correlation ($r = -0.1104$, $p = 0.0963$) between these two variables. The negative correlation may mean that companies that use outside funding are more likely to have a formalized strategic plan. If true than this finding is important because it shows that when faced with a necessity, such as funding, small companies are willing to invest the time and resources to develop a formal strategic plan. The question now is what else, related to the business, can be used as a "necessity" factor, which will entice small business to formally plan.

This is a question that should be studied by various regulatory entities such as city, county and Federal registration authorities, which might require submission of a formalized strategic plan before they issue incorporation and/or other licensing permits. Although this may be interpreted as "interference" with free market practices, it might increase the overall rate of small business success, which is beneficial first and foremost to the business owner.

A new trend in funding for small businesses is business loans based on personal FICO (Fair Isaac & Co.) of the borrower. This trend, which is practiced mostly by banks, was designed to allow banks to compete with credit cards in the small-business market. This is a very risky proposition, because issuing loans to businesses based on the personal FICO of the borrower, without requiring any formalized planning, takes away the incentive to plan, which is a factor in the future success of the business.

The impact of Clarity

This study has established correlation, albeit not statistically significant ($r = 0.1116$, $p = 0.0927$) between the size of the company (Capacity Group) and the existence of a value system manifested in the form of a written mission statement (Clarity). The meaning of this finding is that smaller companies are less likely to have a value system as a foundation for their business. In addition, the present study has established a highly significant correlation ($r = 0.5430$; $p = 0.0000$) between the existence of a written mission statement (Clarity) and formalized strategic plan (Strategy). The regression results for clarity as an explanatory variable of strategy provided indicated that 24.4 percent of the variance of strategy is explained by Clarity. Clearly the existence of a value system in an enterprise can influence the development of a formalized strategic plan.

Even more revealing is the correlation of Strategy with Clarity and Capacity Group. When we ran a multiple regression of these three variables, we found that both variables had positive regression coefficients and combined, Capacity Group and Clarity, explain 30.81 percent of the variance in Strategy. This finding has important implications. It means that educators and practitioners can influence incidence of formalized strategic planning by helping smaller companies develop a value system, which for some, will lead to the development of a formalized strategic plan.

From a practical stand point; these two findings mirror those of the relationship between Capacity Group and Necessity and Necessity and Strategy. Simply put, smaller companies are less likely to have a clear value system in the form of a written mission statement. The lack of a value system is another indication of the “ready, shoot, aim” practice of smaller business. For the most part, many of them start the business without any value system as their foundation, only to discover later on that many of the assumptions that they made regarding the business are invalid, and are not producing the desired results.

At the same time, the correlation between Clarity and Strategy indicates that companies that have a value system, in the form of a written mission statement, are more likely to have a formalized strategic plan, which is a factor in their business success. Although this study did not establish Clarity as a mediation variable between Capacity Group and Strategy, it is clear that companies that have established a value system through a written mission statement are more likely to end up having a formal strategic plan. This conclusion is expected because the development of a value system requires the same level of thinking and planning that formalized strategic planning would require.

My personal observation is that there is a common element between business owners who do not write a mission statement, and those who do not develop formal strategic plans. This common element is that they like to do rather than think about what they should do. Maybe, as I suggested in the section of future research, there are some personality traits that differentiate those who plan first and then execute, from those who keep on trying different approaches until one works, or more likely not.

Another possible explanation is the business environment we live in today. With the rapid acceleration in business processes (email, instant messaging, file transferring etc.) it is possible that small business owners, who do not have the resources to hire additional personnel, have to prioritize between planning and doing. Clearly, most of them choose doing, which could explain some of the reasons of low incidence of formalized strategic planning among smaller companies.

Control variables

In order to enrich the findings of the present study, and explore additional variables that might have an effect on the relationships between the main variables, we inserted five control variables into the study. These control variables are: type of business ownership (family owned or not), business owner/manager age, business owner/manager education, and business age and business type.

When we examined the relationship between the ownership of the business and incidence of formalized strategic planning, we found a highly significant positive correlation ($r = 0.2523$; $p = 0.0001$). Since the Ownership variable was coded 0 (family-owned) and 1 (non-family-owned) and it was found to be significantly different from zero, we tested for the actual difference between the linear relationship between the variables Clarity and Capacity group and the dependent variable Strategy. The analysis showed that there are actually two linear regression equations, one for family-owned business and one for non-family owned business. Non-family businesses were much more likely to plan. It is important to note that ownership of the business has the highest correlation to Strategy of all the five control variables.

When we examined the correlation of the owner/manager's age and Strategy, we found it to be negative but insignificant ($r = -0.1099$; $p = 0.4894$), which indicates that the age of the owner/manager does not have any impact on whether or not a company practices formalized strategic planning. We can conclude that the age of the business does not play a role in formalized planning.

The education of the business owner/manager does not appear to have any significant correlation to Strategy ($r = -0.0370$; $p = 0.5723$). This finding is somewhat surprising because one may assume that business owners who have a higher level of education, and therefore may have been exposed to business planning at school, are not more likely to practice formalized strategic planning for their business. Yet, that is not the case. The logical question is why. Is it because higher education does not include formalized planning classes, or is it because once they graduate, business owners are consumed in the day to day operation of the business, and they do not apply some of the tools they have acquired in school?

Implications

The implications of the present study are applicable to the research literature, to educational and training institutions, and to practitioners in the field of business planning and strategy. To the literature, the findings of this study add validation of the link between company sizes and formalized strategic planning. In addition, the findings of this study introduce new evidence on the relationship between a company's size and the use of outside funding sources, and between a company's size and the existence of a written mission statement.

Researchers in the area of formalized business planning may use this incremental knowledge gained in the present study to explore other variables that may have an impact on the relationship between Capacity Group and Strategy. Now that we know that the need for outside funding and the existence of a value system do not mediate between Capacity Group and Strategy, it opens the door to examining other possible mediating variables. This added knowledge may lead to the exploration of other variables such as personality traits.

The implications that the present study have on business education, training and practitioners are even more far reaching. The findings that smaller companies, especially micro companies, are less likely to be involved in formalized strategic planning combined with earlier finding on the link between formalized strategic planning and business performance should alert educational institutions and training center to the fact that the need for business-planning education and training is great. This need is critical when we look at the business landscape in the US. Of the 25.8 million businesses in the US, 98 percent are small businesses, and according to the SBA (2005) "Small businesses are the back bone of the US economy".

One practical aspect of these findings is the correlation between the existence of a value system and incidence of formalized strategic planning. Since we know that 24.4 percent of the variance in Strategy is explained by Clarity, it may be a good idea for educators and practitioners to help small business owners develop a value system through the development of a written mission statement. Due to the correlation between the two, it is likely that at least some of these small business owners will proceed to develop a formalized strategic plan.

Further research

There are two general methods to the exploration of the reasons why smaller companies (in terms of number of employees) are less likely to formally plan than companies with a larger number of employees. One method, which was used in the present study, is to examine the role that some variables play in mediating between the ID Capacity Group, and the DV Strategy. Another method is to explore variables that act as possible barriers, and prevent smaller companies from formal planning.

As further research in the area of the link between company size and incidence of formalized strategic planning, I recommend exploring additional variables for possible mediation, such as personality traits of the business owner, and possibly gender. An additional approach to further study can be variables that prevent small-business owners from formally planning such as the acceleration of business processes in the connected economy, where everything moves so much faster, and there is less time to plan. Another possible area of exploration is the relatively lower barrier to business entry. Starting a business, especially an Internet business, is relatively quick and inexpensive. Is it possible that such business owners are taking the approach of trial and error rather than formalized planning? It would be interesting to explore formal-planning practices pre and post Internet era.

All in all, the field of formalized strategic planning offers many opportunities for further exploration and research, which is greatly needed as an enhancement to the body of knowledge, as well as to practitioners in this field. I am privileged that I had the opportunity to make a contribution to this discipline, and to future researchers fascinated by this subject as I am.

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APENDIX A

Distribution of companies by number of employees of members of the San Rafael, California Chamber of Commerce.

Number of employees	Number of companies	Percent of total companies
1	16	
1	186	
2	86	
2	1	
3	59	
4	128	
4	1	
5	26	
1-5 Employees	**503**	**61%**
6	30	
6	1	
7	13	
8	18	
9	47	
10	20	
6-10 Employees	**129**	**16%**
11	4	
12	9	
13	4	
14	9	
15	27	
11-15 Employees	**53**	**6%**
16	9	
18	3	
19	1	
20	17	
16-20 Employees	**30**	**4%**
21	3	
22	2	
23	2	
24	1	
25	10	
21-25 Employees	**18**	**2%**
26	2	
27	2	
28	3	
29	2	
30	6	

31	5	
32	1	
34	3	
35	1	
37	1	
38	4	
39	1	
40	5	
41	1	
45	2	
47	2	
48	1	
50	3	
52	2	
60	4	
65	2	
70	2	
75	3	
76	1	
80	4	
81	1	
99	1	
100	2	
101	1	
120	1	
122	1	
125	1	
126	1	
140	1	
150	1	
151	1	
155	1	
200	1	
205	1	
220	1	
235	1	
250	2	
275	1	
340	1	
350	2	
450	1	
560	1	
600	1	
1200	2	
1820	1	
Over 25 employees	**92**	**11%**
Grand total	**827**	**100%**

APPENDIX B

Industry categories at the San Rafael Chamber of Commerce

Accounting & Bookkeeping	Advertising	Alterations/Tailoring
Apartments Rentals	Appliances Sales & Repair	Architects
Attorneys	Automobile Dealers	Automobile Parts & Supplies
Automobile Rental	Bakeries	Banks, Credit Unions, Savings & Loan Associations
Beauty Salons, Spas & Supplies	Book & Magazine Dealers	Building Materials
Business Services	Cable Television	Caterers
Chiropractors	Cleaners	Computer Sales, Leasing, Consulting & Service
Computer Software	Computer Training	Construction and Construction Consultants
Contractors	Cosmetic Surgery	Cosmetics/Body Care
Credit Card Processing	Credit Reporting	Custodial Maintenance & Supplies
Dance	Dentist	Disaster Consultation, Supplies & Services
Document Security	Educational Resources	Electrical Contractors
Engineers	Entertainment	Environmental
Film Production & Licensing	Finance & Investments	Florists
Food Contract Management	Furniture	Gifts
Graphic Designers	Grocers	Hardware
Health & Fitness Clubs/Trainers & Equipment	Health Care & Services	Hotels, Motels, Inns
Ice Cream & Frozen Desserts	Import & Export	Insurance
Interior Design	Jewelers/Jewelry	Kitchen & Bath

Legal Services	Library	Mailing Machines & Equipment
Management Consulting & Training	Manufacturing	Marketing & Sales
Merchant Processing	Mortgages	Movie Theaters
Moving & Storage	Newspapers	Nursing Homes
Office Equipment, Supplies & Furniture	Office Space Rentals	Payroll Management Services
Photography	Plumbing Contractors	Pool Equipment & Services
Printing, Copying & Duplicating	Psychotherapy & Counseling Services	Public Relations
Real Estate	Recycling Centers	Restaurants
Retail Sales	Retirement & Life Care	Schools, Colleges and Specialized Training
Shopping Centers	Travel Agencies	Utilities
Veterinary Hospitals	Video & Sound Production, Editing & Duplication	Web Site Design & Development
Weight Control Services	Wholesale	Wine
Writing		

APPENDIX C

Approved consent statement and questionnaire

This survey is part of a scientific study on the factors impacting formalized strategic planning in small businesses. This study is part of a Doctoral Dissertation through Touro University International, and conducted by Dan Geller Phone: 415-572-1411, Email: dgeller@tourou.edu.

This study is Chaired by Dr. Greg Schmid, phone: 650-856-0174, email: gschmid@tourou.edu, and governed by the Institutional Review Board (IRB), Chaired by Dr. Afshin Afrookhteh, phone: 714-226-9840, extension 2004, email: aafrookhteh@tourou.edu.

The information you provide in this survey will be held in strict confidentiality, and will be used ONLY for statistical purposes in aggregated format. No personal contact information or company name is required. The researchers of this study have no financial interest in this survey or its results.

Participation in this survey is strictly voluntary, and you may withdraw at any time. However, completion of the survey denotes your consent for participation.

Thank you for your consideration and participation.

Survey Questionnaire

Question no. 1 (dummy)

Response /Choose one	Question/Possible responses
	Which category best describes your type of business? (Check one)
	Professional and business services, Healthcare and education, Research and development, Banking, finance, insurance
	Manufacturing, production, Retailer, wholesaler, Construction, Household services, personal services.

Question no. 2 – Age-range of business

Response /Choose one	Question/Possible responses
	How long has this business been in existence?
	Less than one year.
	One to three years.
	Three to five years.
	Five to ten years.
	Over ten years.

Question no. 3 – Educational level of owner/manager

Response /Choose one	Question/Possible responses
	What is your highest level of education?
	High school
	Associate degree
	Bachelor's degree
	Master's degree
	Post graduate degree

Question no. 4 – Age rage of owner/manager

Response /Choose one	Question/Possible responses
	What is your age range?
	18-24
	25-34
	35-44
	45-54
	Over 55

Question no. 5 (dummy) – Ownership of business

Response /Choose one	Question/Possible responses
	Is your business a family-owned business? (Majority ownership by one family)
	Yes
	No

Question no. 6 – Number of employees

Response	Value	Question/Possible responses
		How many full-time equivalent people work in your company? (Including yourself)
	1	
	2	
	3	
	4	
	5	
	n	

Question no. 7 – Outside funding

Response/ Choose one	Question/Possible responses
	Have you ever obtained outside funding for your current business from sources such as a commercial bank, credit union, venture capital company, or angel investor?
	No
	Yes

Question no. 8 – formalized strategic planning

Response/ Choose one.	Strategy question/Possible responses
	Which of the following three definitions of planning best describes the planning status in your company?
	There is no measurable structured planning in the firm.
	My company has a Written short-range operation budgets and plans of action for current fiscal period. The typical plan of action would include basic controls such as production quotas, cost constraints, and personnel requirements.
	My company has a formalized, written long-range plans covering the process of determining major outside interests, focused on the organization; expectation of inside interests, information about past, current, and future performance; environmental analysis; and determination of strengths and weaknesses of the firm, and feedback. Typically 3-15 years in nature.

Question no. 9 – Mission statement

Response/ Select all that apply.	Clarity question/Possible responses Select all that apply.
	A written mission statement includes the following nine components. Which of these components, if any, exist in writing at your company?
	Customers (the target market)
	Products/Services (offerings and value provided to customers)
	Geographic Markets (where the firm seeks customers)
	Technology (the technology used to produce and market products)
	Concern for Survival/Growth/ Profits (the firm's concern for financial soundness)
	Distinctive Competence (how the firm is different or better than competitors).
	Philosophy (the firm's values, ethics, beliefs)
	Public Image (contributions the firm makes to communities)
	Employees (the importance of managers and employees)

APPENDIX D

Raw data of survey questionnaire

Strategy	Business type	Business age	Owner/mgr. Education	Owner/mgr. Age	Ownership type	Necessity	Clarity	Capacity group	Capacity
1	0	5	3	5	0	0	0	3	3
1	0	2	4	2	0	1	2	1	1
2	1	5	4	5	0	0	6	3	3
2	0	5	5	5	1	1	4	1	1
2	1	5	3	3	1	1	9	5	6
3	1	3	4	3	1	1	7	5	4
2	0	5	2	4	0	1	2	5	6
3	0	4	3	4	0	1	9	2	2
1	0	5	5	4	0	0	0	1	1
1	0	3	4	4	1	1	3	1	1
1	0	5	3	4	0	1	5	1	1
2	1	4	1	4	1	1	9	3	3
2	1	2	1	5	0	1	6	3	3
1	0	5	5	5	0	0	6	5	4
3	1	5	3	5	1	0	7	5	19
1	0	5	3	4	0	1	0	2	2
2	0	3	1	4	0	1	8	1	1
1	1	5	5	5	0	1	0	5	5
3	0	5	3	5	1	1	7	2	2
1	0	5	3	5	0	1	0	1	1
1	1	5	3	3	0	1	8	2	2
2	0	5	3	5	1	0	9	5	15
1	0	5	1	5	0	0	0	5	8
2	0	5	3	5	1	1	6	5	5
1	0	2	3	2	1	1	5	1	1
2	1	2	3	2	0	1	0	5	4
1	0	5	3	5	0	0	7	5	5
1	0	5	3	4	1	1	7	2	2
1	0	5	2	5	1	1	0	5	11
2	1	5	1	4	0	0	6	5	15
2	0	4	4	4	1	1	7	5	5
2	0	5	4	3	1	1	5	5	13
2	0	5	4	4	1	1	5	3	3
3	0	5	2	5	1	0	7	5	40
1	0	5	1	4	0	0	9	5	23
2	0	2	4	5	1	1	9	2	2
1	1	4	2	4	0	1	3	5	4
3	0	5	4	5	1	0	0	5	35
1	0	5	2	5	0	1	2	1	1
1	0	4	3	4	1	1	0	1	1

1	0	2	4	5	0	0	0	5	14
2	0	5	5	5	1	1	5	5	6
3	0	2	3	2	0	1	4	1	1
2	0	3	4	5	0	1	9	1	1
1	0	4	4	4	1	1	3	3	3
3	0	5	1	5	1	1	6	5	20
1	1	5	1	4	0	0	0	5	5
1	0	4	4	4	0	1	4	2	2
1	1	2	3	5	0	0	1	2	2
2	0	5	3	4	0	0	1	5	11
1	0	4	3	5	0	1	0	1	1
2	0	4	3	3	1	1	7	3	3
1	0	4	3	2	0	1	3	1	1
1	0	5	4	3	0	1	7	1	1
1	0	4	1	4	1	0	0	5	5
2	0	2	3	3	1	1	6	5	4
2	0	5	3	4	0	0	9	5	13
3	0	5	3	5	1	0	9	5	38
2	1	2	4	5	0	0	2	1	1
1	1	5	1	5	0	1	0	1	1
3	0	4	3	5	0	1	7	1	1
2	1	5	3	4	0	1	4	1	1
1	0	2	4	4	0	1	4	1	1
3	0	1	4	3	0	0	7	1	1
2	0	5	4	5	0	1	4	3	3
3	0	3	1	3	1	1	3	1	1
1	1	3	1	4	0	1	6	1	1
1	0	4	3	4	0	1	6	1	1
1	1	1	3	4	0	1	2	1	1
1	0	4	3	4	0	1	4	1	1
1	0	1	5	4	0	1	4	1	1
1	1	2	1	4	0	0	4	1	1
1	1	4	3	4	0	0	5	5	15
1	1	1	5	5	0	0	0	2	2
1	0	3	2	4	0	1	0	1	1
1	1	5	3	5	0	1	4	2	2
2	1	1	4	5	1	1	4	2	2
1	1	1	3	4	0	1	5	1	1
2	1	4	4	5	1	0	7	1	1
1	0	4	4	5	0	1	3	1	1
1	0	3	5	5	0	1	0	1	1
1	1	2	4	3	0	1	2	1	1
2	1	3	2	2	0	1	6	5	22
1	1	5	3	5	0	0	4	1	1
2	0	2	2	4	0	0	6	1	1
1	1	5	3	4	0	0	7	3	3
1	1	5	3	5	0	0	8	5	4
1	0	5	3	5	1	0	6	1	1

1	1	2	1	4	1	1	0	3	3
2	1	3	3	5	0	1	0	2	2
2	0	2	3	4	0	1	6	2	2
1	1	2	3	3	0	1	3	1	1
2	0	5	1	4	0	0	6	1	1
1	1	2	1	3	0	1	3	1	1
2	0	5	3	4	1	1	3	2	2
1	0	3	3	5	0	1	5	2	2
1	1	1	5	5	0	1	1	1	1
1	1	2	1	5	0	1	1	1	1
1	0	4	3	4	1	1	4	1	1
1	0	5	3	5	0	1	4	1	1
1	0	5	5	5	0	1	0	5	4
2	1	5	2	5	0	0	7	1	1
2	0	4	5	5	0	1	5	1	1
1	1	3	3	3	0	1	6	5	18
1	1	4	3	5	0	1	7	5	6
2	0	5	3	4	0	0	2	5	4
2	1	2	1	5	0	0	5	1	1
1	1	2	4	4	0	1	0	2	2
1	0	4	5	4	0	1	2	1	1
2	0	5	4	5	0	1	6	1	1
2	0	4	3	4	0	1	8	1	1
3	1	4	4	5	1	1	7	2	2
2	1	1	5	4	0	1	5	1	1
1	0	2	4	3	1	1	0	2	2
1	0	2	2	5	1	1	5	1	1
1	1	2	1	3	0	1	0	1	1
2	0	1	4	5	0	1	7	1	1
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2	0	4	4	5	1	1	1	2	2
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2	0	4	3	2	0	1	6	1	1
3	0	5	5	4	0	0	8	5	5
2	1	2	1	4	1	1	4	1	1
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1	1	5	2	3	0	0	6	1	1
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1	1	3	3	4	0	1	1	1	1
2	0	3	3	4	1	1	9	1	1
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1	1	5	3	4	0	0	2	5	10
1	1	3	1	4	1	1	3	5	4

APPENDIX E

Description of survey values

Question 1: Which category best describes your type of business? (Check one)	Value	Value Label
	0	Professional and business services, Healthcare and education, Research and development, Banking, finance, insurance.
	1	Manufacturing, production, Retailer, wholesaler, Construction, Household services, personal services.
Question 2: How long has this business been in existence?	Value	Value Label
	1	Less than one year.
	2	One to three years.
	3	Three to five years.
	4	Five to ten years.
	5	Over ten years.
Question 3: What is your highest level of education?	Value	Value Label
	1	High school
	2	Associate degree
	3	Bachelor's degree
	4	Master's degree
	5	Post graduate degree
Question 4: What is your age range?	Value	Value Label
	1	18-24
	2	25-34
	3	35-44
	4	45-54
	5	Over 55
Question 5: Is your business a family-owned business? (Majority ownership by one family)	Value	Value Label
	0	Yes
	1	No
Question 6: How many full-time equivalent people work in your company? (Including yourself)	Value	(enter number of employees)

Question 7: Have you ever obtained outside funding for your current business from sources such as a commercial bank, credit union, venture capital company, or angel investor?	Value	Value Label
	0	Yes
	1	No
Question 8: Which of the following three definitions of planning best describes the planning status in your company?	Value	Value Label
	1	There is no measurable structured planning in the firm.
	2	My company has a Written short-range operation budgets and plans of action for current fiscal period. The typical plan of action would include basic controls such as production quotas, cost constraints, and personnel requirements.
	3	My company has a formalized, written long-range plans covering the process of determining major outside interests, focused on the organization; expectation of inside interests, information about past, current, and future performance; environmental analysis; and determination of strengths and weaknesses of the firm, and feedback. Typically 3-15 years in nature.
Question 9: A written mission statement includes the following nine components. Which of these components, if any, exist in writing at your company?	Value	Select all that apply. Value=total number of categories selected.
		Customers (the target market)
		Products/Services (offerings and value provided to customers)
		Geographic Markets (where the firm seeks customers)
		Technology (the technology used to produce and market products)
		Concern for Survival/Growth/ Profits (the firm's concern for financial soundness)
		Distinctive Competence (how the firm is different or better than competitors).
		Philosophy (the firm's values, ethics, beliefs)
		Public Image (contributions the firm makes to communities)
		Employees (the importance of managers and employees)