



Usage of business plans in the Montana business community
by George Christophis Makris

A thesis submitted in partial fulfillment of the requirements for the degree of Master of Science in
Business Education

Montana State University

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Abstract:

The major purpose of this study was to identify the business planning habits of Montana based small manufacturing firms, the owners perceptions of planning and its uses, as well as their awareness of business planning services. The population of the study consisted of 1500 Montana based manufacturing businesses as defined, identified and compiled by the Montana Department of Commerce in the Manufacturing Business Directory. The sample consisted of 200 firms that were randomly selected from the population. Out of the 100 questionnaires that were received, 53 were suitable for use in this study, 9 were not suitable, and 38 were left blank. The SAS statistical package was used to analyze the data.

The major conclusions of this study were: (1) one out of three small manufacturing firms had developed a written business plan upon starting their business or later. Giving direction to their company was the most common reason that prompted them to create a plan; (2) eight out of ten of those who prepared a business plan because it was a bank requirement do not use a plan today; (3) contrary to the literature review, only six percent of the manufacturers refrained from planning because it was too expensive. The most common reason for failing to develop a plan was never having thought about it; (4) while half of these manufacturers thought a business plan might be helpful to the future success of their company, only fifteen percent intended to develop one; (5) accounting firms had the highest level of awareness as providers of business planning services.

The main recommendations were: (1) banks should recognize that forcing a firm to prepare a business plan as a loan prerequisite will not necessarily guarantee that firm's success; (2) business support groups should educate business owners about the value of business planning; (3) the SBA should promote greater awareness of its programs; (4) future researchers should conduct studies that expand this one and longitudinal studies that examine the relationship between planning and success.

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MONTANA STATE UNIVERSITY
Bozeman, Montana

July 1993

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m2898

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This thesis has been read by each member of the thesis committee and has been found to be satisfactory regarding content, English usage, format, citations, bibliographic style and consistency, and is ready for submission to the College of Graduate Studies.

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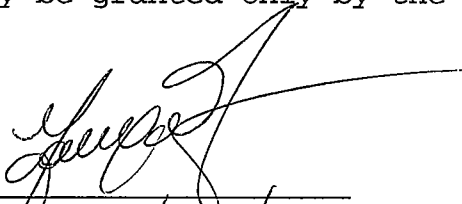
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LIST OF TABLES

Table		Page
1	Position of Respondents in Relation to Business Plan Creation.....	27
2	Number of Full-Time Employees in Relation to Business Plan Creation.....	29
3	Legal Status in Relation to Business Plan Creation.....	31
4	Gross Sales in Relation to Business Plan Creation.....	33
5	Relation Between Routine Use of a Plan Today and Reasons for Creating a Plan.....	42
6	Frequency of Business Planning Elements.....	45
7	Frequency of Business Planning Help.....	48
8	Relation Between Routine Use of a Plan Today and Perception of Plan Helpfulness.....	50
9	Awareness Frequency of Business Planning Services.....	57

TABLE OF CONTENTS--Continued

	Page
IV. PRESENTATION OF DATA.....	24
Introduction.....	24
Business Demographics.....	24
Business Plan Statistics.....	33
Business Planning Rationale.....	39
Business Plan Contents.....	45
Business Plan Preparation.....	47
Business Owners Perceptions of Usefulness and Price.....	48
Business Owners Awareness of Business Planning Services.....	57
Other Findings.....	58
Summary.....	59
V. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	60
Introduction.....	60
Summary of the Study.....	60
Conclusions.....	62
Recommendations.....	65
BIBLIOGRAPHY.....	71
APPENDICES.....	75
Appendix A--Cover Letter.....	76
Appendix B--Survey Instrument.....	78

LIST OF TABLES

Table		Page
1	Position of Respondents in Relation to Business Plan Creation.....	27
2	Number of Full-Time Employees in Relation to Business Plan Creation.....	29
3	Legal Status in Relation to Business Plan Creation.....	31
4	Gross Sales in Relation to Business Plan Creation	33
5	Relation Between Routine Use of a Plan Today and Reasons for Creating a Plan.....	42
6	Frequency of Business Planning Elements.....	45
7	Frequency of Business Planning Help.....	48
8	Relation Between Routine Use of a Plan Today and Perception of Plan Helpfulness.....	50
9	Awareness Frequency of Business Planning Services.....	57

LIST OF FIGURES

Figure		Page
1	Position of Respondents Who Filled out Questionnaire.....	26
2	Number of Full-Time Employees of Responding Businesses.....	28
3	Legal Status of Responding Businesses.....	30
4	Gross Sales of Responding Businesses.....	32
5	Breakdown of Business Plan Use Among Businesses (Plan Group).....	34
6	Breakdown of Businesses With Plan Upon Startup of Business (No Plan Group)....	35
7	Breakdown of Businesses With Plan Upon Startup of Business.....	37
8	Breakdown of Businesses That Continue to Routinely Use a Business Plan.....	38
9	Rationale Behind Developing a Written Business Plan.....	40
10	Rationale Behind Not Developing a Business Plan.....	43
11	Time Frame of Business Plans.....	46
12	Payment for Business Planning Help.....	49
13	Perception of Business Plan Usefulness (Plan Group).....	51
14	Perception of Business Plan Usefulness (No Plan Group).....	53
15	Business Plan Price Perceptions.....	54
16	Future Business Plans.....	56

ABSTRACT

The major purpose of this study was to identify the business planning habits of Montana based small manufacturing firms, the owners' perceptions of planning and its uses, as well as their awareness of business planning services. The population of the study consisted of 1500 Montana based manufacturing businesses as defined, identified and compiled by the Montana Department of Commerce in the Manufacturing Business Directory. The sample consisted of 200 firms that were randomly selected from the population. Out of the 100 questionnaires that were received, 53 were suitable for use in this study, 9 were not suitable, and 38 were left blank. The SAS statistical package was used to analyze the data.

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The main recommendations were: (1) banks should recognize that forcing a firm to prepare a business plan as a loan prerequisite will not necessarily guarantee that firm's success; (2) business support groups should educate business owners about the value of business planning; (3) the SBA should promote greater awareness of its programs; (4) future researchers should conduct studies that expand this one and longitudinal studies that examine the relationship between planning and success.

CHAPTER I

INTRODUCTION

Introduction

"Having the right mental attitude is important but it is not enough to guarantee the small company's success. What is essential -even for the smallest of companies- is planning."
(Fasano 1990)

Business planning is defined as "any process or strategy by which a business intends to accomplish its goals and to reduce risk and uncertainty in the future." (Cook 1985) In other words, taking concrete actions today, so that managers can effectively deal with tomorrow's events. The discipline of planning enables a business to make a commitment to success, to have a guide for better communication and management, and to be proactive rather than reactive.

When Bill and Julie Brice invested \$10,000 in two unprofitable frozen-yogurt stores 10 years ago, they did not have time to prepare a plan. Nevertheless, one year after they began operations, rapid expansion and the involved nature of the business forced Julie to acquire the necessary skills and develop a written business plan. Today, along with her brother Bill, she owns and manages the 120 member 'I Can't Believe It's Yogurt' franchise chain. Their success story was featured in the August 1988 edition of the Nation's Business magazine. "If I had to start over again, I

definitely would do a business plan to take a look at all the opportunities, the positives and the negatives," she was quoted as saying. In addition, she added that if she had planned prudently from the beginning, certain early errors would not have taken place. (Thompson 1988)

According to data released by the U.S. Department of Commerce and the SBA as reported in Meridian Learning Systems's book The New American Business System, "Over 80% of all new businesses fail within the first five years-and about half of them don't even make it through the first year. The reason for 92% of these failures is lack of business experience and expertise." (Chickadel et al 1991) In the opinion of small business consultant Harriett Fox, as it was reported in a June 1991 article in the Entrepreneur Magazine, the high failure rate small businesses experience every year can be directly attributed to lack of business planning. (Cook 1991) In the end, as popular wisdom has it: "Failing to plan is planning to fail."

Need for the Study

In view of the volatility and uncertainty of the business environment, the strong belief among small business experts that there is no substitute for a well-prepared business plan, as well as the intrinsic value of planning, it would seem rational that most small businesses would engage

to some extent in formal planning. (Dilts et al 1989) (Cook 1991) Nevertheless, what appears to be rational is not always the case. In the same article that described the 'I Can't Believe It's Yogurt' story, Leo Lauzen, chairman of a nationwide accounting franchise, reported that many small business owners "never write a proper plan," although they generally agree that a business plan would be beneficial to their long term growth. Lack of time and apprehension with the process are two often cited reasons for not writing a business plan. (Thompson 1988)

According to a special report that appeared in the October 23, 1989 issue of U.S. News and World Report, "Small businesses, defined as those with fewer than 100 workers, now employ nearly 60% of the work force and are expected to generate half of all jobs between now and the year 2000." In view of the very important role small businesses play in stimulating the economy, it makes sense at this period of slow economic growth to focus attention on small business research needs. (Drucker 1984)

This study will explore the business planning habits of Montana-based small manufacturing businesses, the owners' perceptions about business planning and its uses, as well as their awareness of outside help. The results of this study may be used by the Small Business Administration, the Montana Department of Commerce, professional organizations and others

to create or improve mechanisms that encourage and facilitate effective business planning within the state of Montana.

Statement of the Problem

The major purpose of this study was to identify the business planning habits of Montana based small manufacturing businesses, to assess the perceptions of small manufacturing business owners and general managers in relation to business planning, and to determine their awareness of public and private professional business planning services.

Questions to be Answered

1. What proportion of Montana based small manufacturing businesses prepare written business plans?
2. Why do they prepare or not prepare a written business plan?
3. What do they include in a business plan?
4. What help, if any, do they receive in preparing a business plan?
5. What are the perceptions of small manufacturing business owners and general managers in relation to certain aspects of business planning?
(especially usefulness and price)

6. What is their awareness of public and private professional business planning services?

Limitations of the Study

The study was limited to small manufacturing businesses that operated in Montana at the time of the study. The population of the study was comprised of 1500 firms that the Montana Department of Commerce had identified and compiled in the 1992 edition of the Manufacturing Business Directory. According to an official of the Department this list was comprehensive. The instrument of the study was a detailed self-administered questionnaire that was mailed to 200 randomly selected participants. A total of one hundred questionnaires were returned and 53 were suitable for use.

This study exclusively examined the manufacturing industry. Consequently, the results may not be generalized to the agricultural, retail and service industries. However, if the assumption can be made that small manufacturing businesses in the U.S. are similar to those in Montana, results may be generalized to the industrial sectors of other states.

It is possible that certain small business owners or managers did not respond accurately to the questionnaire, especially when answers could have reflected unfavorably on their businesses. This may have biased the findings of the

study. Nevertheless, the researcher believes that the majority of people provided accurate reports.

Terminology

The following terminology is given as an aid to the reader:

Business Planning: "Any process or strategy by which a business intends to accomplish its goals and to reduce risk and uncertainty in the future." (Cook 1985)

Key Results Areas (KRAs): "Customer satisfaction, productivity, innovation, resources, management development and performance, employee attitudes and performance, public responsibility, communications, climate management, organizational development. If a manager manages these KRAs as well as or better than his competitors, he will be able to increase profitability." (Randolph 1975)

Long Range Plan: "One which plans the growth, e.g. of a company, over the years ahead (usually five or more years). In making such a plan the company's strengths and weaknesses will be considered by the directors of the company, as well as the opportunities and threats in the market." (Wallace 1984)

Mission Statement: "A basic statement of what type of business a firm is in. It serves in giving direction to the company and in reminding everyone of what it is that the company is trying to achieve." (Larson 1990)

Objective: "A specific target to be sought at a specified point in time." (King et al 1987)

Operational Plan: "The setting of specific objectives for specific functional areas such as finance, marketing and personnel. Operational planning is typically performed on a six to twelve month basis." (Shrader et al 1989)

Short Term Planning: "The act of making plans for which things will happen soon (e.g. within about a year)." (Wallace 1984)

Small Business: "Under 20 employees very small; 20-99 small; 100-499 medium sized; and over 500, large. These breaks are consistent with standard business employment, asset, and receipt type classes established on May 18, 1982 by the Office of Management and Budget to be used by all federal agencies when publishing business data." (Report of the President 1989)

Small Business Administration (SBA): "A federal agency established in 1953 with responsibility for assisting small businesses. The SBA provides loans and loan guarantees as well as managerial assistance." (Cook 1985)

Small Business Development Center (SBDC): "The Montana SBDC is a unit of the Business Assistance Division of the Montana Department of Commerce, jointly funded by the Department and the SBA. Its mission is to provide specialized consulting to small businesses throughout the state." (Larson 1990)

Strategic Planning: "A written long-range plan, which includes both a corporate mission statement and a statement of organizational objectives. A strategic plan includes strategies indicating how objectives will be accomplished."

(Shrader et al 1989)

Strategy: "The general direction in which the objectives are to be pursued." (King et al 1987)

SWOT: "Strengths, weaknesses, opportunities and threats."

(Larson 1990)

Tactics: "Resource consuming sets of activities through which strategies are implemented and goals are pursued."

(King et al 1987)

Summary

This chapter presented the concepts that make up the framework of the study as well as the rationale for the study and defined the related terminology. The next chapter will review the related literature.

CHAPTER II

REVIEW OF LITERATURE

Introduction

This chapter provides an analysis of small business planning based on a variety of related issues. First, the need for planning is addressed. Second, the advantages and disadvantages of business planning are presented. Third, the feelings and actions of small business owners toward planning are considered. Fourth, the relationship between financing and planning is examined, Fifth, various groups that can offer professional advice are listed, and finally the contents of a typical business plan are defined.

The Need for Planning

A business plan is like a microscope because it enables firms to objectively examine themselves and like a telescope because it forces them to look at the external environment, said Densmore, a member of New Hampshire's Small Business Development Center (SBDC), in an article that appeared in the Entrepreneur Magazine during June 1991. "I see a direct relationship between the absence of a business plan and the

failure of a business," added Fox, president of a small business consulting firm in Florida, in the same article. (Cook 1991)

Indeed, empirical data confirm that there is a relationship between small business planning and organizational performance. In a study conducted by Charles Shrader and others in central Iowa, a stratified random sample of 115 small businesses was examined. The researchers used the Dun and Bradstreet database to select the businesses with the demographic characteristics they deemed desirable. Those were sales, employment, SIC codes and number of employees. All businesses had at least 10 employees but less than 100 and thus could be classified as small. The survey was conducted via personal interviews with the chief executive officer or top manager of each firm. Strategic planning as well as operational planning were both positively correlated with organizational performance although the strategic planning correlations were weaker and not as significant. Even though most aspects of operational planning showed significant correlations with organizational performance, the marketing and budgeting sections had the strongest relationships. (Shrader et al 1989)

A nationwide American Express survey, as it was cited in the September 1988 issue of the Journal of Accountancy, found the following among the small companies that were surveyed: Those small firms that grew faster than the rest

and had the highest profits were the ones that had better planning and management. (Journal of Accountancy 1988) In view of the data presented above, it would appear that if a small business develops a well thought-out business plan, the likelihood of that business failing should decrease. As Siegel, a business development consultant, put it: "If you do a real good job of writing your business plan, it's more than just putting words on paper. You do a lot of research and you expose a lot of flaws. Each one that you expose and treat, you enhance the chances of your success". (Moore 1989)

Increasing environmental uncertainty can be a factor in creating a need for business planning. Among other things, Shrader's previously mentioned study had also confirmed that there was a positive correlation between macro-environmental uncertainty and planning. (Shrader et al 1989)

Finally, it should be mentioned that the majority of commercial lenders require the presentation of a business plan before they will even consider granting a loan to a small business. (Cook 1991)

Advantages and Disadvantages of Business Planning

In Orpen's empirical study, where he surveyed 58 owners and managers of small businesses, it was concluded that despite many perceived difficulties, business planning (particularly long range planning) benefits small firms in

many ways. (Orpen 1985) In a later article that appeared in the 1987 edition of the Strategic Planning and Management Handbook, Dr. Fox, a business consultant and university professor, also compared the pros and cons of planning. (King et al 1987) Following is a list of the major advantages and disadvantages of business planning as they appeared in these studies:

1. Possible Advantages

- a. Provides clear direction
- b. Improves competitive position
- c. Facilitates proactive attitude
- d. Uncovers opportunities and weaknesses
- e. Focuses attention on long term success factors
- f. Promotes efficient allocation of resources
- g. Assists in the creation of accurate forecasts

2. Possible Disadvantages

- a. Demands too much time
- b. Costs too much money
- c. Requires special skills and knowledge
- d. Creates potential for information leaks
- e. Tends to expand bureaucratic controls

Notwithstanding its drawbacks, according to Dr. Hills, Director of the Office for Entrepreneurial Studies at the University of Illinois at Chicago, "Developing a business plan is widely recognized as an important part of starting and managing a business. For most people, the exercise of

developing a comprehensive business plan can help to identify voids, issues and uncertainties that would not otherwise be seen."

Small Business Owners and Planning

The majority of small business owners never engage in formal business planning. Although they agree that a business plan is useful, they are too busy to write one. (Thompson 1988) In his 1989 empirical study mentioned previously, Shrader found that the most common reasons small business owners had for not writing a plan included the high cost, lack of skills and expertise, lack of time, and planning not being appropriate for the business. (Shrader et al 1989) Nevertheless, even a 'mom and pop' operation could benefit by some degree of planning. According to Lauzen, a consultant with Comprehensive Accounting, "Ninety-two percent of businesses remain small. They don't grow into a size that needs a sixty-page plan. What they need is a five-page plan." (Thompson 1988)

Business Planning and Financing

"When seeking financing, a business plan is an invaluable tool. It helps you understand where your business is and where you want to take it, and it can be revised when you want to re-evaluate your business or add a new partner or product." (Goldberg 1993)

Indeed, a business plan will not only be helpful when trying to attract funds, but also it is required by most banks. (Cook 1991) In an opinion article that appeared in the September 1992 issue of the Entrepreneur Magazine, it was stated that an 'ordinary plan' is not sufficient when a business owner is seeking to finance a business. Instead, what he needs is a 'working plan' which can interest a lender because it shows that he successfully tested his project. The author goes on to add the following:

"A working business plan tests the marketability and profitability of an idea. And both marketability and profitability must be present before a plan is considered a working business plan. You might create a product that sells like crazy, but unless you can sell it at a price that creates a profit you don't have a business." (Blechman 1992)

According to an opinion article that appeared in the 1992 edition of Entrepreneur Magazine, it was stated that using a business plan as nothing but a financing vehicle for start up firms could be a 'costly mistake'. (Maturi 1992) The author further added that business plans should not be put aside once a business has been established but rather be used and updated on a regular basis. (Maturi 1992)

Getting Professional Advice

A variety of options exist for small business owners who want to enlist professional assistance in writing their business plans. The Small Business Administration (SBA), The

Service Corps of Retired Executives (SCORE), as well as Small Business Development Centers (SBDCs) across the country offer competent and inexpensive or free advice. These resources as well as university-based entrepreneurship centers and accounting firms should also be used when a business is growing more rapidly than it can handle advises Lisa J. Moore in an article that appeared in U.S. News and World Report in 1989. "Tapping such experience can make the difference between being buried by mistakes and comfortably spreading your roots," she adds. (Moore 1989)

When large companies need a business plan, they can usually afford the high cost associated with hiring expensive private consultants. Today, small businesses can have access to comparable advice from low-priced software packages. (Goldberg 1993) A significant number of books and software on business planning are available. Nevertheless, private consultants should not be neglected especially when a top-quality document is desired. (Cook 1991)

Business Plan Contents

A typical business plan usually includes the following:

a) Macroenvironmental analysis, i.e. an examination of the industry, the economy, competition, technology, social, political, and legal trends.

b) SWOT analysis, i.e. the strengths, weaknesses, opportunities and threats the company is facing.

c) Strategic analysis, i.e. the mission statement, objectives, and strategies.

d) Marketing analysis, i.e. an explanation of the product or service that is being marketed, its price, the promotional methods that will be used, the distribution channels, the product's competitive advantage as well as other related issues.

e) Production analysis, i.e. a description of the company's production facilities and procedures, methods of quality control, supplier references and other production related issues.

f) Financial analysis, i.e. projected cash flow statements, balance sheets, income statements and break-even schedules. Other related items such as an executive summary or a management profile may also be included in a business plan.

Fox, a small business consultant, strongly suggests that worst-case scenarios be included in a business plan. (Cook 1991) Carroll, a commercial lender with a mid-sized bank, would like to see 'footnotes' on plans. "Prospective borrowers have to show that they didn't just pick the numbers out of the sky," he says. "If you tell me utilities are going to be \$1200 a month without showing me you contacted

three lighting companies and you averaged the figures they gave you, that \$1200 is meaningless." (Cook 1991)

"As outside and internal circumstances change the business environment, your plan needs updating, just as road maps need updating when new roads are built," advises Dan Garner, an official with accounting giant Ernst and Young. (Maturi 1992) Moreover, he adds that projected objectives should be compared with actual performance and the reasons behind the organization's failure to meet those objectives should be uncovered and corrected. (Maturi 1992)

Summary

The review of the literature has shown that despite certain disadvantages, such as being expensive or consuming too much time, business planning can indeed be beneficial to small businesses. Giving direction to the firm and helping to allocate resources are two major advantages a plan can offer. Small business owners can get professional help from a variety of sources that range from inexpensive SBA programs to expensive private consulting. Chapter II has focused on the contents and implications of the literature review. Chapter III will address the procedures of the study.

CHAPTER III

PROCEDURES

Introduction

The major purpose of this study was to determine the business planning habits of Montana-based small manufacturing businesses, the owner's perceptions about business planning and its uses, as well as their awareness of professional business planning services. The information that was gathered in this study may be found useful by a variety of people. SBA and SCORE executives may find that their programs are not widely known and thus decide to increase public awareness. Private consultants may find additional needs for their services. Finally, Montana educators may find that stressing the need for business planning in current business curriculums is necessary.

The purpose of this chapter is to: a) give a brief review of related literature, b) describe the sources of data, c) present the methodology of construction of the survey instrument, d) give the timeline for data collection, e) describe the participant selection process and f) describe the data analysis method.

Review of Related Literature

A business plan, similar in some respects to a road map, can provide direction to a company, help it determine its key objectives, and detail the actions that need to be taken in order to achieve success. Small-business consultants tend to agree that business experience or financial strength cannot be used as a substitute for a functional business plan. The high failure rate small businesses experience every year could partially be attributed to lack of business planning. (Cook 1991) The ability to uncover strengths and weaknesses, to provide clear direction as well as to enable a company to be proactive are but a few advantages planning can offer. On the other hand, it might be too costly, demand too much time, and require special skills. (King et al 1987)

Although many small business owners agree that planning is useful, they never take the time to write a formal business plan. Nevertheless, even a 'miniature' plan would be helpful. (Thompson 1988) Inexpensive or free advice in writing a plan is readily available through SBA, SCORE, and SBDCs around the country. Private consultants are also available. A typical plan usually includes a macroenvironmental analysis, SWOT analysis, strategic analysis, as well as marketing, production, and financial plans.

Sources of Data

The information that was used in preparing the first three chapters was obtained from the following sources: Research and opinion articles were acquired through the Renne Library of Montana State University by conducting searches on the Infotrac periodical search system, the Harvard Business Review database and the Dissertation Abstracts Online. In addition, the researcher possessed a number of related books and articles.

Empirical data was collected through the use of a survey instrument in the form of a questionnaire. The instrument was administered to a randomly selected sample of small manufacturing businesses in Montana.

Construction Methodology of Survey Instrument

The survey instrument was a written questionnaire. After reviewing the literature and consulting with Professor Millikin, College of Business, Montana State University (MSU), the researcher designed the initial form. A draft of the instrument was presented to BuEd 524 class (Research in Business Education) at MSU during the month of July 1991. The participants reviewed and edited the instrument. Upon review and approval by Dr. Millikin, a pilot study was conducted to test the accuracy of the instrument. The pilot

study took place within the city of Bozeman, Montana, and it involved ten small business owners. Under the direction of Dr. Shannon Taylor, College of Business, MSU, and upon approval by the graduate committee, further revisions were made to the instrument. A new pilot study was conducted to further test the accuracy and ease of use of the improved instrument. The pilot study took place within the cities of Livingston and Bozeman, Montana, and it involved five small manufacturing business owners. No further revisions were required, and upon final approval by Dr. Taylor the instrument was administered.

Time Line for Data Collection

October 15,	1992	Initial pilot survey, 10 businesses in Bozeman, MT
March 24,	1993	Final pilot survey, 5 small business manufacturers in Bozeman and Livingston, MT
April 14,	1993	Mailing of survey and cover letter to sample
May 14,	1993	Cut-off date for returns

Participant Selection

The population of the study consisted of 1500 Montana based manufacturing businesses as defined, identified and compiled by the Montana Department of Commerce. All of these businesses had a telephone and a deliverable address. A sample of 200 businesses was randomly selected from the Manufacturing Business Directory published by the Montana Department of Commerce. The database was made available to the researcher on computer disk. The method of choosing every seventh business from the database was used. Upon completion of the selection process, the instrument and a cover letter was mailed to the 200 randomly chosen participants. A total of 100 questionnaires were received back. Out of those, 53 were filled out and were suitable for use in this study, 9 were not suitable for use and 38 were left blank. As it can be seen on the instrument itself (see Appendix B), recipients were asked to complete the questionnaire and return it, if their business could be classified primarily as a manufacturing company. If their business was anything else but a manufacturing company, recipients were asked to return the questionnaire blank.

This study may be subject to non-respondent bias because only 50% of the sample participants returned the instrument. Nevertheless, five of the firms that did not respond were

interviewed via phone and were found to have similar responses and demographic data as those who responded.

Data Analysis Method

The collected data were analyzed by using the SAS statistical package and Cricket Graph. Bar graphs, pie charts, frequencies, cross tabulations and chi squares were selectively used to analyze the findings of the study.

Summary

Chapter III addressed the issues of the survey instrument construction, the data collection timeline, and the participant selection process. Answers to questions presented in Chapter I were given by using the information that was obtained through the statistical analysis. Chapter IV will present the results.

PRESENTATION OF DATA

Introduction

The objective of this chapter is to present the findings of the study in a statistical and graphical form and to provide comments. First, the important demographic data is given. Second, the number of small manufacturing businesses that prepare or don't prepare written business plans is identified. Third, the rationale behind preparing or not preparing a written business plan is analyzed. Fourth, the contents of business plans are shown. Fifth, the role of outside help in business plan preparation is addressed. Sixth, the perceptions of business owners in relation to price and usefulness of a business plan are presented. Seventh, the business owners awareness of planning services is demonstrated.

Business Demographics

Out of the 100 questionnaires that were returned, 53 were filled out and were suitable for use in this research project, 9 were not suitable for use and 38 were left blank. This section gives the major demographic data of the 53

Montana based small businesses that returned a completed questionnaire and can be primarily considered as manufacturing companies. This study may be subject to non-respondent bias because only 50% of the sample participants responded. Five of the firms that did not respond were interviewed via phone and were found to have similar responses and demographic data as those who responded. This outcome was encouraging.

In order to enhance communication, the demographic characteristics are analyzed for the complete group of the respondents (53) and for the two main subgroups, i.e. those who at some point in time used a written business plan (Plan Group: 19) and those who never used a written business plan (No Plan Group: 34). These characteristics are as follows:

- a) Position of the person that filled out the questionnaire,
- b) Number of full-time employees, c) Legal status, and d) Gross sales.

Overall, the vast majority of the respondents were owners of the business that was being studied. As Figure 1 shows 44 (83%) were owners and 9 (17%) were managers. Table 1 further exhibits that within the Plan Group 14 (74%) of the respondents were owners of the business and 5 (26%) were managers. Within the No Plan Group 30 (88%) were owners of the business whereas only 4 (12%) were managers.

Figure 1

Position of Respondents Who Filled Out Questionnaire

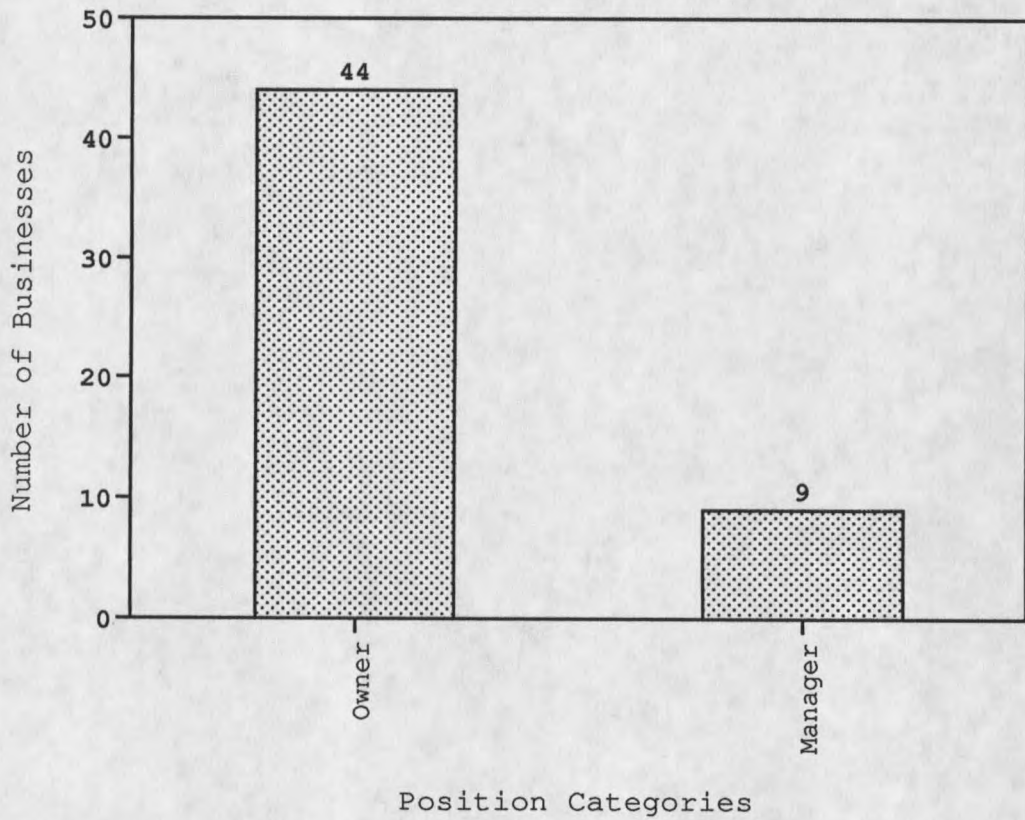


Table 1
Position of Respondents in Relation to Business Plan Creation

<u>Position of Respondents</u>	<u>Business Plan</u>		<u>Total</u>
	<u>No</u>	<u>Yes</u>	
<u>Manager</u>	4 (12%)	5 (26%)	9
<u>Owner</u>	30 (88%)	14 (74%)	44
<u>Total</u>	34 (100%)	19 (100%)	53

Figure 2 illustrates the number of full-time employees small manufacturing businesses had during 1992. They were as follows: 28 (58%) had between zero and five employees, 8 (17%) had between six and ten employees, 4 (8%) had between 11 and 20 employees, 3 (6%) had between 21 and 30 employees, none had any employees between 31 and 50, and 5 (10%) had over 50 employees. Five respondents failed to answer this question. According to the 1989 President's Report, businesses that have less than 20 employees are considered "very small" and businesses that have between 20 and 99 employees are considered "small." The data presented above indicate that 36 or more than half (75%) of the respondents are considered very small businesses whereas the rest are small. As Table 2 also shows, the number of very small businesses both proportionately and numerically is slightly larger within the No-Plan Group. Twenty six (89%) of the manufacturers out of the No-Plan Group are classified as very small businesses and 14 (74%) out of the Plan Group are classified as very small businesses.

Figure 2

Number of Full-Time Employees of
Responding Businesses

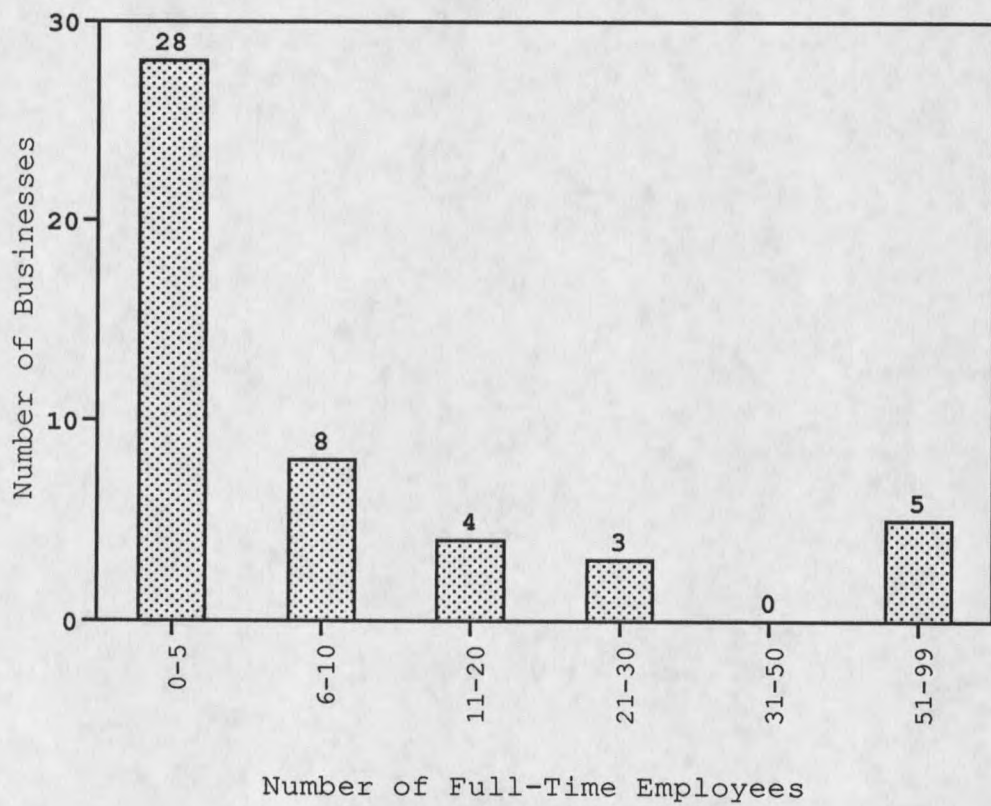


Table 2
Number of Full-Time Employees in Relation to Business Plan
Creation

<u>Number of Full</u> <u>Time Employees</u>	<u>Business Plan</u>		<u>Total</u>
	<u>No</u>	<u>Yes</u>	
<u>0-5 Employees</u>	21 (72%)	7 (37%)	28
<u>6-10 Employees</u>	3 (10%)	5 (26%)	8
<u>11-20 Employees</u>	2 (7%)	2 (11%)	4
<u>21-30 Employees</u>	2 (7%)	1 (5%)	3
<u>51-99 Employees</u>	1 (4%)	4 (21%)	5
<u>Total</u>	29 (100%)	19 (100%)	53

There was a relationship between the size of small manufacturers, as measured by the number of full-time employees in 1992, and their tendency to prepare or not prepare a written business plan. (Chi square was 11.29, degrees of freedom were 5, probability was less than .05)

The majority of the manufacturing businesses that responded to the survey were organized as corporations. As Figure 3 presents 32 (60%) were organized as corporations and 21 (40%) were organized as sole proprietorships. None of the respondents was organized as a partnership. Furthermore, according to Table 3 within the Plan Group 14 (74%) were organized as corporations and 5 (26%) as sole proprietorships. Within the No Plan Group 18 (53%) were organized as corporations and 16 (47%) as sole proprietorships.

Figure 3

Legal Status of Responding Businesses

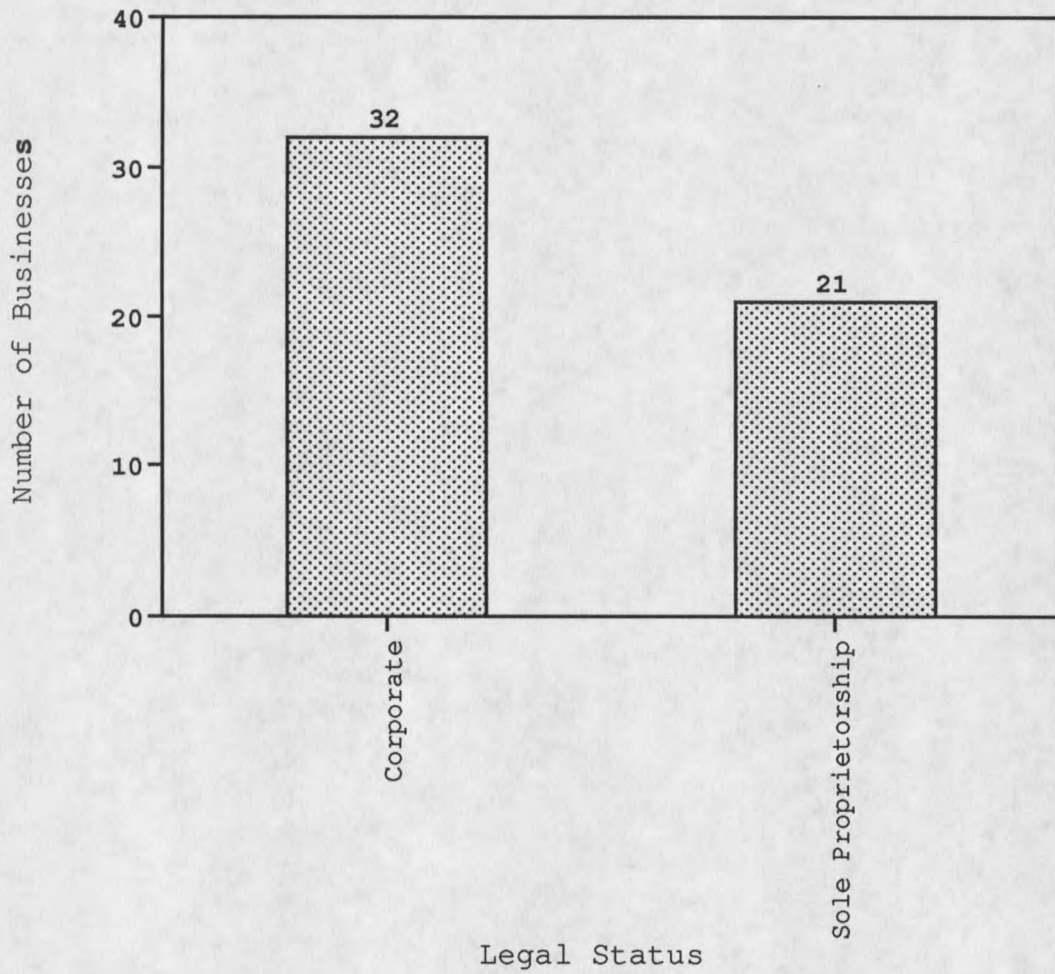


Table 3
Legal Status in Relation to Business Plan Creation

<u>Legal Status</u>	<u>Business Plan</u>		<u>Total</u>
	<u>No</u>	<u>Yes</u>	
<u>Corporation</u>	18(53%)	14(74%)	32
<u>Sole Propr.</u>	16(47%)	5(26%)	21
<u>Total</u>	34(100%)	19(100%)	53

The legal status of small manufacturers showed no relationship to their tendency to prepare or not prepare a written business plan. (Chi square was 2.19, degrees of freedom were 1, probability was greater than .05)

Figure 4 presents the data relevant to the gross sales of the qualified respondents. Of the 53 small manufacturers 16 (31%) had gross sales of \$100,000 or less, 12 (23%) had \$100,001 to \$250,000, 6 (12%) had \$251,000 to \$500,000, 7 (14%) had \$500,001 to \$1,000,000, 3 (6%) had \$1,000,001 to \$2,000,000, 4 (8%) had \$2,000,001 to \$5,000,000 and 4 (8%) had over \$5,000,001. One participant failed to answer the corresponding question. Table 4 demonstrates the gross sales within the Plan and No Plan Groups.

Figure 4

Gross Sales of Responding Businesses

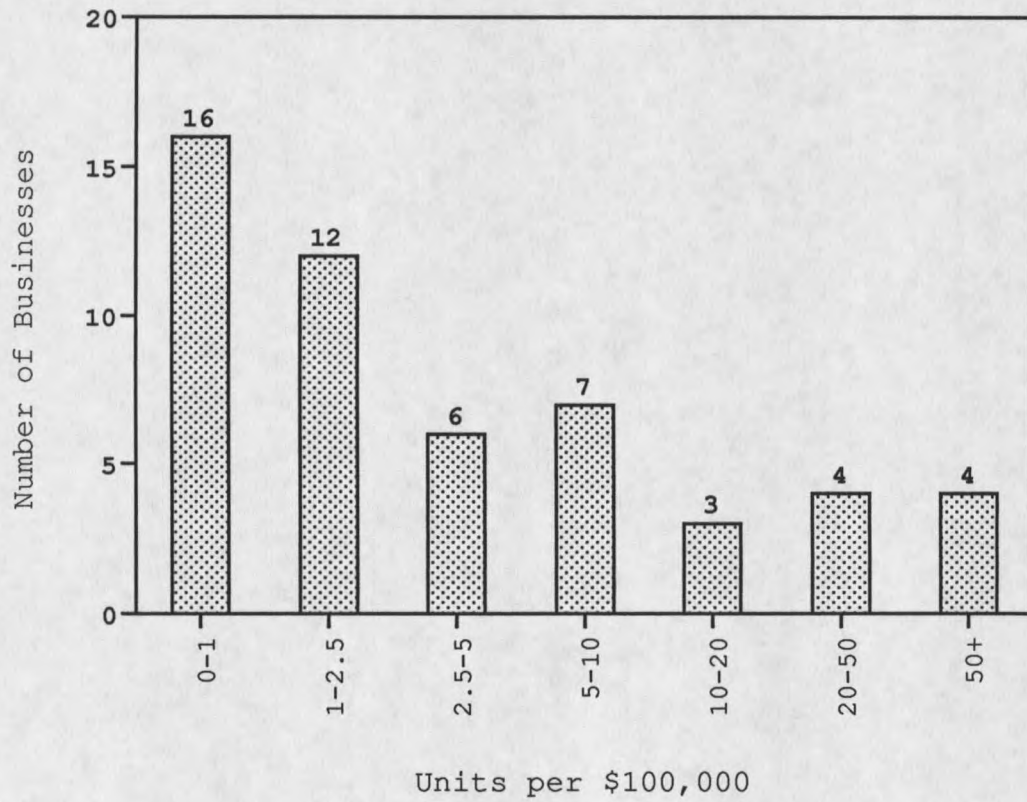


Table 4
Gross Sales in Relation to Business Plan Creation

<u>Gross Sales</u>	<u>Business Plan</u>		<u>Total</u>
	<u>No</u>	<u>Yes</u>	
<u>0-1</u>	13 (39%)	3 (16%)	16
<u>1-2.5</u>	8 (24%)	4 (21%)	12
<u>2.5-5</u>	4 (12%)	2 (11%)	6
<u>5-10</u>	2 (6%)	5 (26%)	7
<u>10-20</u>	2 (6%)	1 (5%)	4
<u>20-50</u>	3 (9%)	1 (5%)	4
<u>50+</u>	1 (3%)	3 (16%)	4
<u>Total</u>	33 (100%)	19 (100%)	52

The relative size of the small manufacturers, as determined by their 1992 gross sales, showed no relationship to their tendency to prepare or not prepare a written business plan. (Chi square was 8.73, degrees of freedom were 6, probability was greater than .05)

Business Plan Statistics

This section examines the number of small manufacturing businesses that developed a written business plan and those that did not. Figure 5 shows that out of the 53 qualified respondents 19 (36%) had used a written business plan at some point in time and that 34 (64%) had never used one. Furthermore, as Figure 6 demonstrates 10 (20%) had prepared a

Figure 5

Breakdown of Business Plan Use Among Businesses

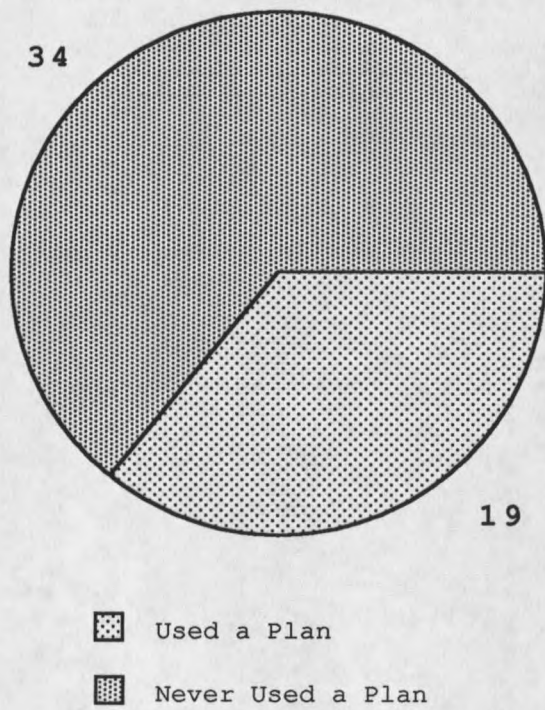
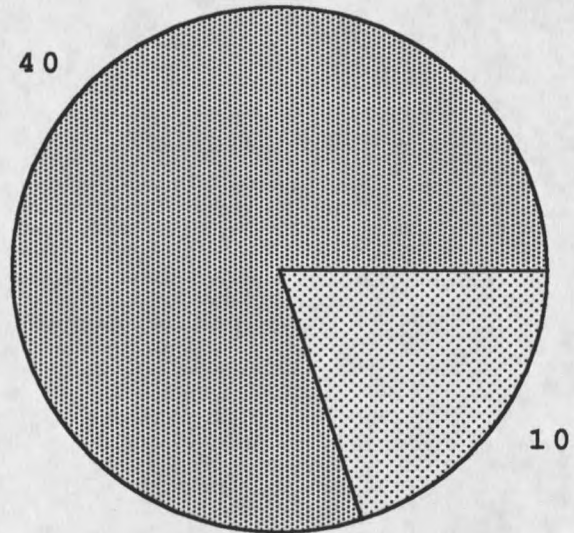




Figure 6

Breakdown of Businesses with Plan Upon Startup of Business



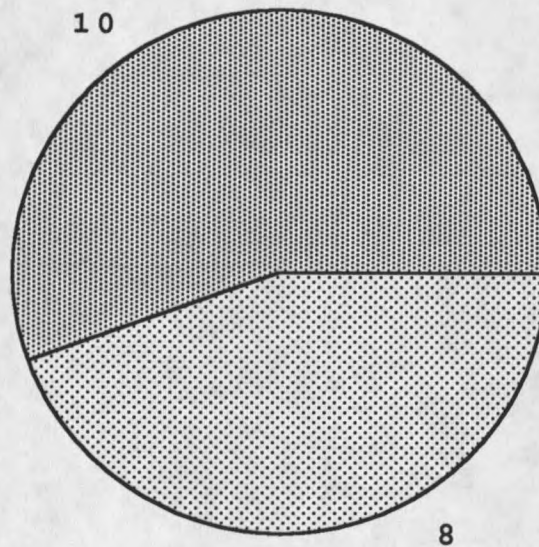
-  Had Plan
-  Did Not Have Plan

written plan when starting their business, and 40 (80%) did not prepare one upon starting their business. Three participants failed to answer the corresponding question. In addition, as Figure 7 indicates, out of the manufacturers that had used a written business plan 10 (53%) had prepared a written business plan upon starting their company, and 8 (47%) did not prepare a written business plan upon starting their company. One participant failed to answer the corresponding question. Finally, Figure 8 shows that 13 (68%) of the same 19 manufacturers that had used a business plan (i.e. the majority) continue to routinely use a business plan today whereas the remaining 6 (32%) do not.

Taking into consideration the assumption that most small businesses never write a business plan, a view shared by numerous opinion articles, as well as the fact that most businesses in Montana are very small, it was somewhat surprising to find that approximately one out of three businesses that belong to Montana's industrial sector has used a written business plan at some point. (Alexander 1991) This data seems to indicate that a significant portion of the people who own or run the small manufacturing plants of Montana (i.e. one third) are well-informed business people who recognize the importance of planning as a vehicle that can lead to the success of their organization. If the assumption that planning can be one of the key factors of small business success (whether it provides a company with

Figure 7

Breakdown of Businesses with Plan Upon
Startup of Business*



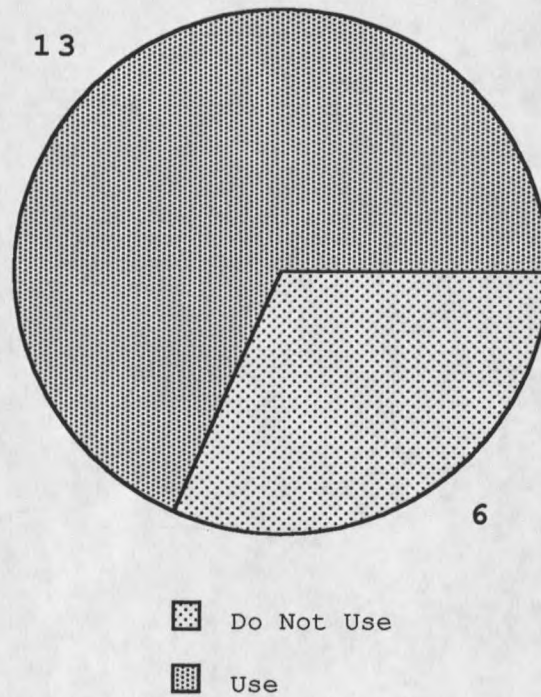
▣ Had Plan

▣ Did Not Have Plan

* This information refers to the group of 19 respondents that had used a written business plan at some point in time.

Figure 8

Breakdown of Businesses that
Continue to Routinely Use a
Business Plan*



* This information refers to the group of 19 respondents that had used a written business plan at some point in time.

clear direction, enables it to raise capital or helps it to uncover (its weaknesses) is accepted as accurate, it might be argued that those small manufacturing firms that have used a business plan may achieve greater success in the future than those that did not.

The assertion expressed above might be tested via a future study that could examine and compare the two groups over a period of time. A measure of success such as gross sales or net profit might be set.

The next section will examine the reasons small manufacturing businesses in Montana did or did not prepare a written business plan.

Business Planning Rationale

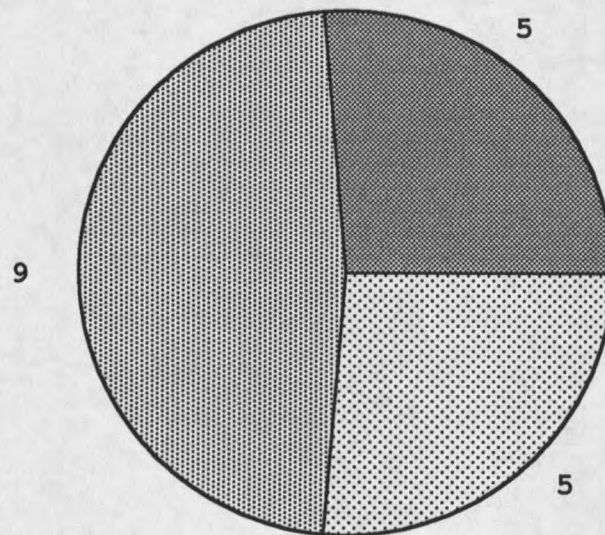
This section identifies the reasons behind the decision of small manufacturing firms to prepare or not to prepare a written business plan.




First, the rationale of the 19 small manufacturers that had used a written plan is reviewed. Figure 9 illustrates that 5 (26%) of these qualified respondents had prepared a business plan because it was a bank requirement, 9 (47%) in order to give direction to their company, and 5 (26%) for both reasons.

The above data also tend to strengthen the suggestion that was presented in the previous section, i.e. that those

Figure 9

Rationale Behind Developing a Written Business Plan*



-  Bank Requirement
-  To Give Direction to Company
-  Both

* This information refers to the group of 19 respondents that had used a written business plan at some point in time.

business people that had used a business plan were well-informed managers. Indeed, only 5 (26%) of the 19 respondents had prepared a written business plan because a bank required them to do so before they could apply for a loan. The rest of the respondents (73%) had prepared a plan either because they felt the clear direction of a business plan would benefit their company or for both reasons.

By comparing the data that was presented in this and the previous section a number of interesting findings can be derived. Again, out of the 53 qualified respondents, 19 had prepared a written business plan at some point in time. As Table 5 shows, out of the five small manufacturing firms that prepared a plan because it was required by a bank in order to process a loan application, only one (20%) continues to routinely use a business plan today. In contrast, seven (78%) out of the nine firms that prepared a business plan in order to give direction to their company continue to use a business plan today, and all of the five firms that prepared a plan for both reasons continue to use one today. The data seems to support the following conclusion: If preparing a written business plan was a consensual or free will decision of the small manufacturing firm and not strictly a requirement imposed by a bank, this firm is much more likely to routinely use a business plan today than if the latter reason were true.

Table 5
Relation Between Routine Use of a Plan Today and Reasons for
Creating a Plan

<u>Reason for</u> <u>Planning</u>	<u>Routinely Use Plan Today</u>		<u>Total</u>
	<u>Yes</u>	<u>No</u>	
<u>Bank Requirement</u>	1(20%)	4(80%)	5(100%)
<u>Direction to Firm</u>	7(78%)	2(22%)	9(100%)
<u>Both Reasons</u>	5(100%)	0(0%)	5(100%)
<u>Total</u>	13	6	19

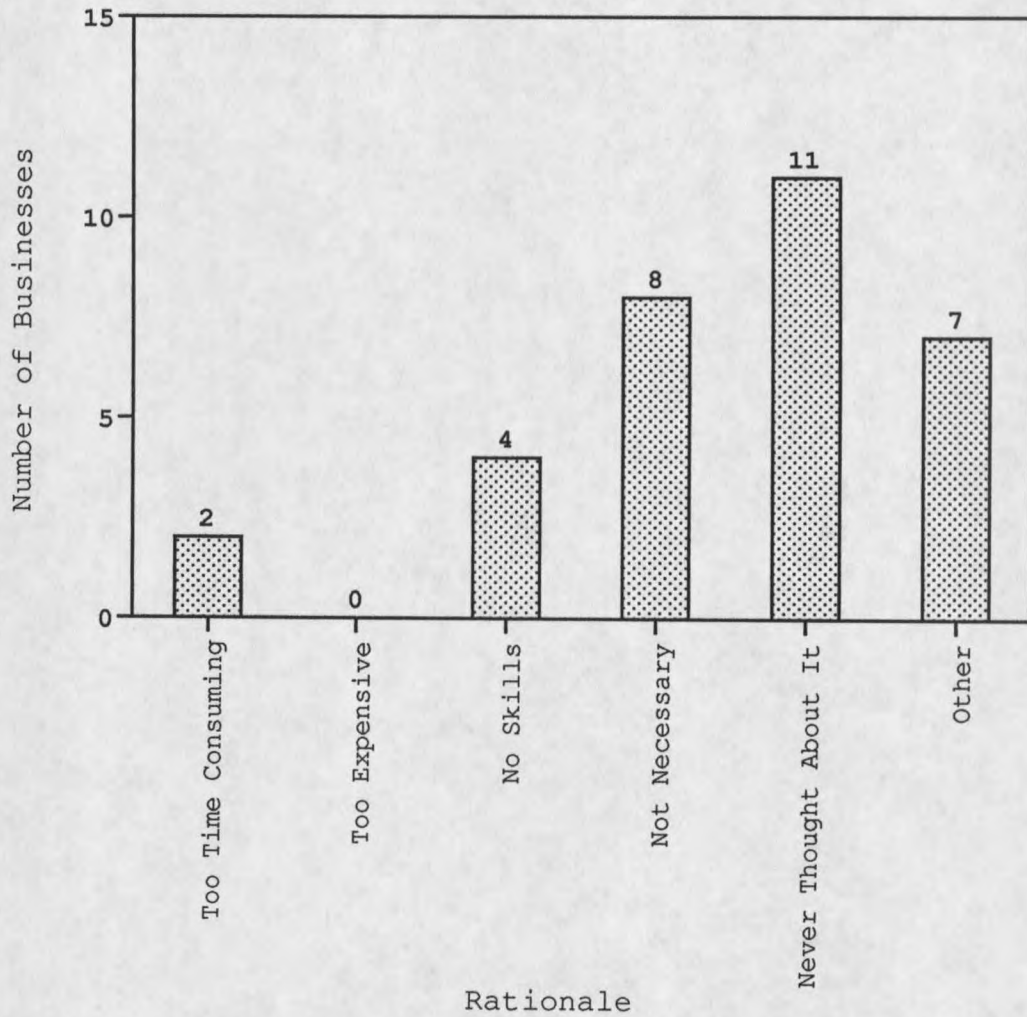
There was a relationship between the initial reasons for developing a written business plan and whether a plan was routinely used or not used today. (Chi square was 8.10, degrees of freedom were 2, probability was less than .05)

Second, the rationale of the 34 small manufacturers that had not prepared a business plan is examined. According to Figure 10, 2 (6%) of these qualified respondents had not prepared a business plan because it was too time consuming, 4 (13%) because they did not have the skills, 8 (25%) because they did not think it was necessary, 11 (35%) because they never thought about it and 7 (22%) due to other reasons. Two participants failed to answer the corresponding question.

These findings largely contradict the suggestion that small businesses refrain from planning mainly because it is too costly, it takes too much time or it requires specialized skills (as expressed in previously quoted opinion articles and empirical data). If all the responses that correspond to

Figure 10

Rationale Behind Not Preparing a Business Plan*



* This information refers to the groups of 34 respondents that had never used a business plan

the above cited reasons were added they would amount to only 6 (19%) out of 34. Surprisingly, not even one respondent mentioned high cost as a reason for not preparing a written business plan. This outcome may be explained by a finding from Section 6 whereby it is shown that 14 (52%) of the respondents are willing to pay less than \$250 for a business plan and 8 (30%) are willing to pay less than \$500. In other words, these respondents may not have considered the cost of preparing a business plan as prohibitive because they may have grossly underestimated the actual cost of having a plan written for them.

These findings also show that the two main reasons 19 (59%) of these small manufacturing firms did not prepare a business plan were simply because they never thought about it or did not consider it necessary. It is possible that this outcome could be partially attributed to a lack of understanding of what exactly a business plan is or how it can help a small business improve its chances of success. Most banks need to see a well thought out business plan before they will consider giving a loan to a small business. (Cook 1991) It is possible that some of the aforementioned small manufacturers never attempted to get a loan from such a bank or worked with a bank that did not require the preparation of a business plan before deciding to extend credit.

Business Plan Contents

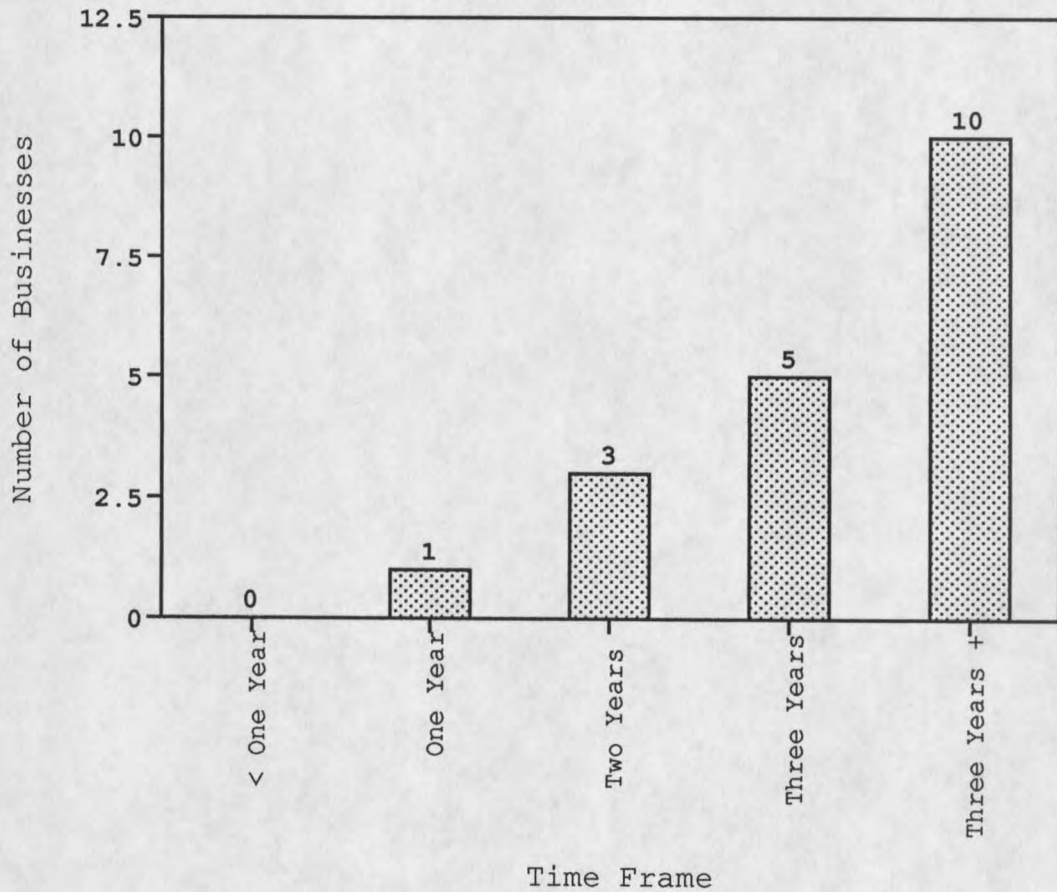
This section provides data concerning the contents of business plans. According to Figure 11, 1 (5%) of the respondents had a written business plan that covered a time frame of one year, 3 (16%) two years, 5 (26%) three years, and 10 (53%) more than three years. Furthermore, Table 6 shows which of the elements usually included in a plan had been used by the aforementioned small manufacturers: 15 (88%) included a mission statement, 13 (77%) an analysis of strengths and weaknesses, 12 (71%) projected financial statements, 11 (65%) specific objectives, 11 (65%) a marketing plan, 10 (59%) a competition analysis, 9 (53%) a technology and process analysis, 8 (47%) an industry analysis, 8 (47%) a macroenvironmental analysis, and 8 (47%) strategies related to the objectives. Two participants failed to answer the corresponding question.

Table 6
Frequency of Business Planning Elements

Mission	15 (88%)
Analysis of Strengths and Weaknesses	13 (77%)
Projected Financial Statements	12 (71%)
Specific Objectives	11 (65%)
Marketing Plan	11 (65%)
Competition Analysis	10 (59%)
Technology and Process Analysis	9 (53%)
Industry Analysis	8 (47%)
Macroenvironmental Analysis	8 (47%)
Strategies	8 (47%)

Figure 11

Time Frame of Business Plans*



* This information refers to the group of 19 respondents that had used a written business plan at some point in time.

The single planning element that appeared more frequently in a business plan than anything else was the mission statement. Almost nine out of every ten qualified respondents that had prepared a plan had included a mission statement. In addition, more than half of the business plans had a time frame of over three years. This data appear to indicate that the majority of these small manufacturing firms plan for the long run. At least one respondent, however, felt very strongly against long-range planning as the following unsolicited comment shows: "In today's timeframe, more than two years is a joke."

The second most frequent element included in a business plan was an analysis of strengths and weaknesses. The third most frequent element was a section with projected financial statements and the fourth was a marketing plan along with a section on objectives.

Business Plan Preparation

This section addresses the help manufacturing firms may have received in preparing a plan as well as how much they may have paid for that service. Out of the 19 small manufacturers that had used a plan, 4 received no help at all. As Table 7 shows, 7 (47%) of the rest of respondents received help from people within their company, 4 (27%) from their accountant, 4 (27%) from other sources, 3 (20%) from a

software or book in planning, 3 (20%) from SBA, 2 (13%) from a business consultant that was not an accountant, 2 (13%) from an independent accounting firm, 2 (13%) from a bank, 2 (13%) from local university faculty, and 2 (13%) from local university students. None received help from SCORE. In addition, as Figure 12 indicates, 7 (64%) of the 15 respondents who received some help paid nothing for it, 1 (9%) less than \$250, 1 (9%) between \$251 and \$500, one (9%) between \$501 to \$750 and 1 (9%) over \$2000. Four participants failed to answer the corresponding question.

Table 7
Frequency of Business Planning Help

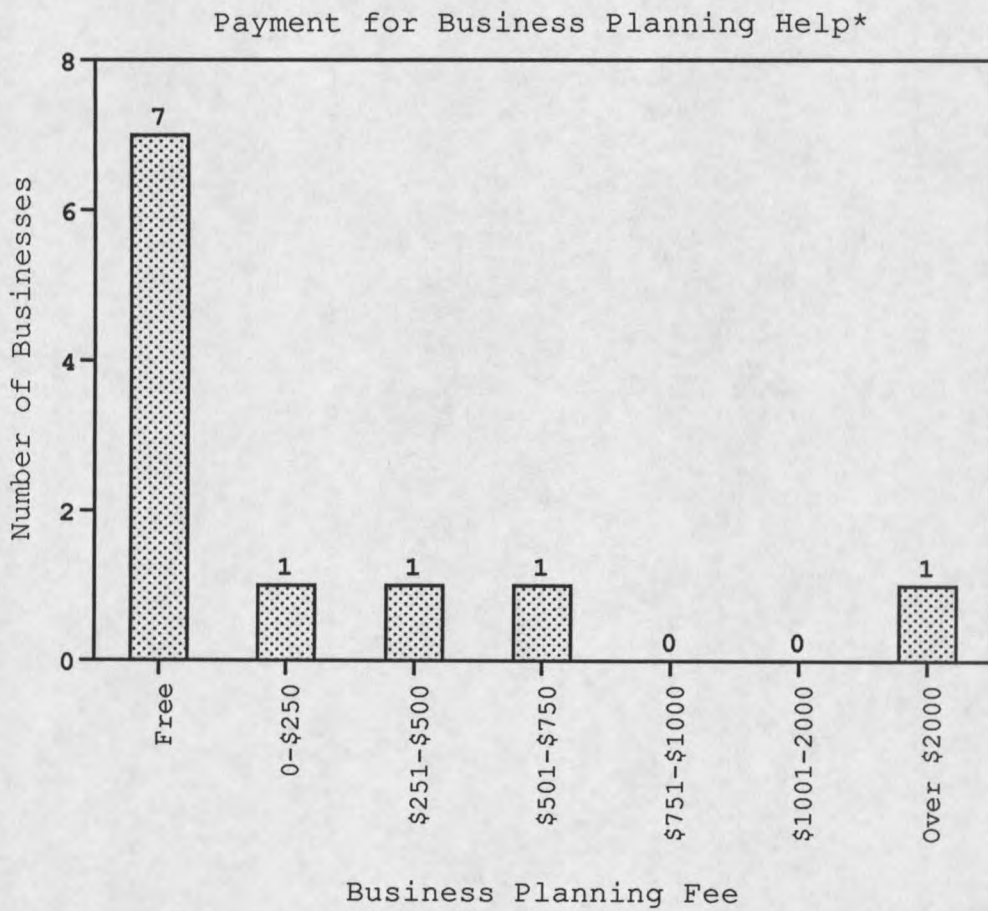
Help from Within Company	7 (47%)
Their Accountant	4 (27%)
Other Sources	4 (27%)
Software or Book	3 (20%)
SBA	3 (20%)
Business consultant	2 (13%)
Independent Accounting Firm	2 (13%)
Bank	2 (13%)
Local University/College Faculty	2 (13%)
Local University Students	2 (13%)
SCORE	0 (0%)

Business Owners Perceptions of Usefulness and Price

This section is concerned with the perceptions of small manufacturing business owners and general managers in relation to business plan usefulness and price.

First, the perceptions of the 19 firms that had prepared

Figure 12



* This information refers to the group of 19 respondents that had used a written business plan at some point in time.

a business plan are reviewed. Figure 13 illustrates that 6 (32%) felt that overall the business plan was very helpful, 6 (32%) helpful, and 7 (37%) slightly helpful. None felt that the business plan was not helpful at all. In addition, Table 8 shows that out of the 13 respondents that routinely use a plan today 5 (38%) felt it was very helpful, 3 (23%) helpful, and 5 (38%) slightly helpful. Also, out of the 6 respondents that do not routinely use a plan today, 1 (17%) felt it was very helpful, 3 (50%) helpful and 2 (33%) slightly helpful. It appears that the data are mixed and that no assertion can be made as to differences in perception between those who routinely use or don't use a business plan.

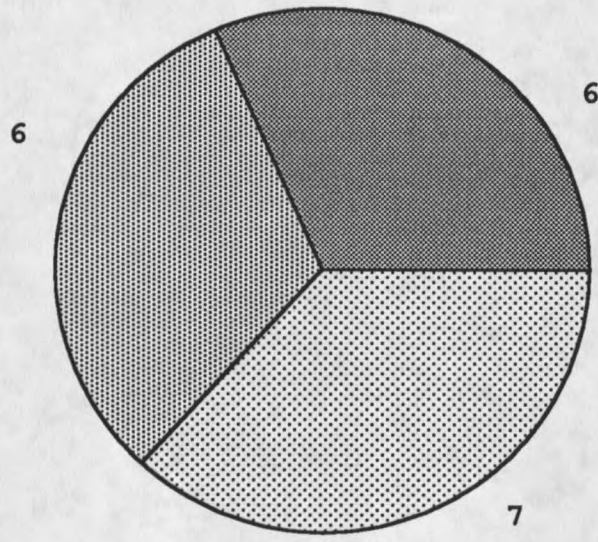
Table 8
Relation Between Routine Use of a Plan Today and Perception
of Plan Helpfulness




<u>Degree of Helpfulness</u>	<u>Routinely Use Plan Today</u>		<u>Total</u>
	<u>Yes</u>	<u>No</u>	
<u>Very Helpful</u>	5 (38%)	1 (17%)	6
<u>Helpful</u>	3 (23%)	3 (50%)	6
<u>Slightly Helpful</u>	5 (38%)	2 (33%)	7
<u>Total</u>	13 (100%)	6 (100%)	19

The perception of how helpful a written business plan has been showed no relationship to whether a plan was routinely used or not used today. (Chi square was 8.73, degrees of freedom were 6, probability was greater than .05)

Figure 13

Perception of Business Plan Usefulness*



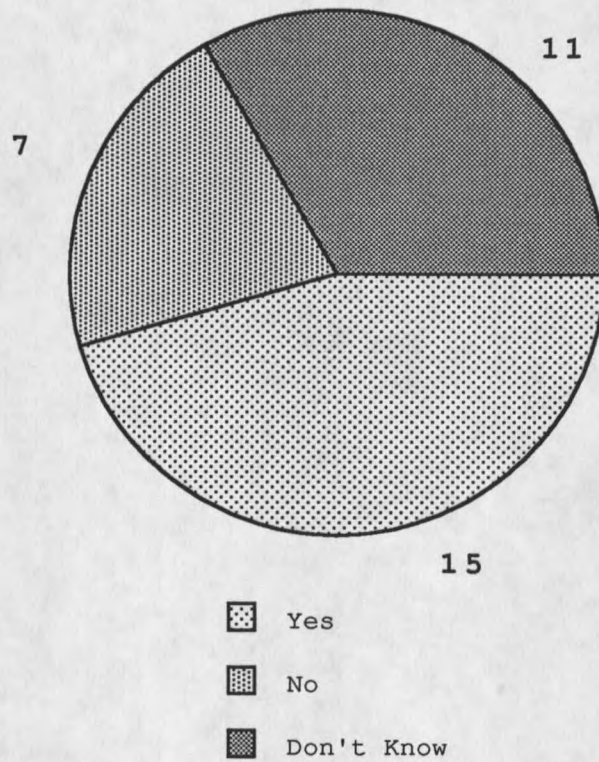
-  Slightly Helpful
-  Helpful
-  Very Helpful

* This information refers to the group of 19 respondents that had used a written business plan at some point in time.

Eleven (58%) out the 19 aforementioned firms answered an open ended question that inquired as to where they thought the business plan was specifically helpful. Five (26%) commented that the plan was most beneficial in helping them define their goals. "To help you maintain your goals and direction," said one. "Keep focused attention on short term and long term goals," said another. Three (16%) referred to focus and direction as being the main benefit they received. Finally, the remaining respondents said the following: a) "As a basis for general business money decisions." b) "Financial control, raising equity capital." c) "By highlighting good and bad points in production."

Second, the perceptions of the 34 small manufacturers that had not developed a business plan is reviewed. As Figure 14 demonstrates, when asked whether they thought a written business plan could be useful to the future success of their company, 11 (33%) said they didn't know, 7 (21%) said No, and 15 (46%) said Yes. One participant failed to answer the corresponding question. Figure 15 illustrates that 14 (52%) were willing to pay less than \$250 if they decided to have someone prepare a professional business plan for them, 8 (30%) between \$251 and \$500, and 5 (19%) between \$501 and \$750. Seven participants failed to answer the

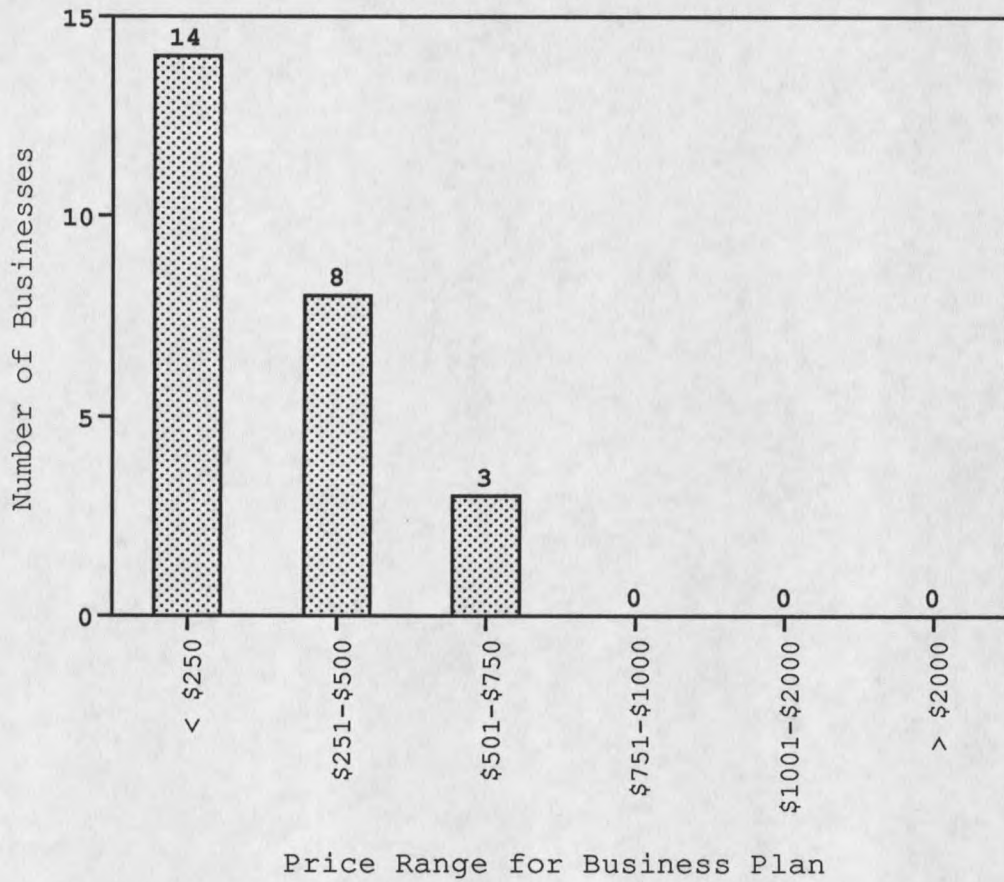
Figure 14

Perception of Business Plan
Usefulness*

* This information refers to the groups of 34 respondents that had never used a business plan

Figure 15

Business Plan Price Perceptions*



* This information refers to the groups of 34 respondents that had never used a business plan

corresponding question. Moreover, as Figure 16 shows, when asked whether they intend to have a business plan done in the future, 13 (39%) said No, 15 (46%) said they didn't know and 5 (15%) said Yes.

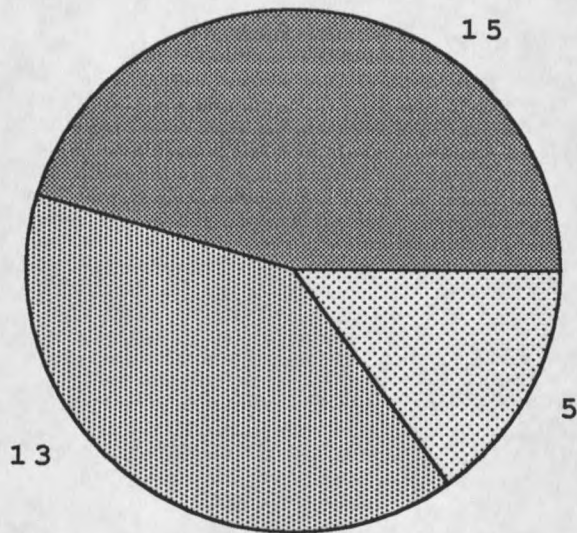
Although almost half (46%) of these business owners and general managers said they thought a written business plan could be helpful to the future success of their company, only a few (15%) said they intended to have one prepared in the future. What could be interpreted as even worse news for business planning consultants is that none of the business owners was willing to pay over \$750 for a business plan.




It appears that most of these business owners are not willing to expend the resources that are called for in preparing a plan, although the thought may have occurred to them at some point that a business plan might be helpful to their business. It is likely that this attitude reflects a lack of understanding in how a business plan can help an organization succeed. (See also Section 3)

Indeed, business planning can help the small businesses of Montana. Not only do small business experts generally agree that a business plan is an indispensable tool for business success, but also empirical studies have proven that a positive correlation exists between operational planning and small firm performance. (Cook 1991) (Shrader et al 1989) In addition, the majority of banks require to see a business plan before they will even consider a funding

Figure 16

Future Business Plans*



-  Yes
-  No
-  Unsure

* This information refers to the groups of 34 respondents that had never used a business plan

request. (Cook 1991) The above findings considered together might suggest that an effort needs to be made by small business support organizations (e.g. the Montana Manufacturer's Association) to educate small business owners about the value of business planning.

Business Owners Awareness of Business Planning Services

This section examines the business owners' and general managers' awareness of business planning services. The data refers to the 34 small manufacturing firms that did not develop a plan. As Table 9 exhibits, 18 (75%) of the qualified respondents were aware of the planning services offered by accounting firms, 13 (54%) by private consultants, 10 (42%) by the SBA, 8 (33%) by SCORE, 6 (25%) by banks, 6 (25%) by a local university or college, and 3 (13%) by another source. Ten of the qualified respondents failed to answer this question.

Table 9
Awareness Frequency of Business Planning Services

Accounting Firms	18 (75%)
Private Consultants	13 (54%)
SBA	10 (42%)
SCORE	8 (33%)
Banks	6 (25%)
Local University/College	6 (25%)
Another Source	3 (13%)

The data show that accounting firms, followed by private business consultants, enjoyed the highest level of recognition as business plan providers. Only two out of five business owners were aware of the SBA as a place where business planning services may be offered, and only one out of three was aware of SCORE. Although none of the two groups will write a complete plan for a business, they provide free advice, inexpensive booklets and can generally direct a client to someone who could provide professional help.

As the data presented earlier indicate, the SBA's and SCORE's business planning assistance programs are not widely known among small manufacturers. It seems plausible that more business owners might take advantage of these services, if they knew about them. Although this study cannot support this assertion, the SBA might consider taking more aggressive steps in promoting the aforementioned services.

Other Findings

An attempt was made to determine whether any demographic factor showed any relationship with the respondents' tendency to prepare or not prepare a business plan. The amount of full time employees, the legal status and the gross sales of the qualifying manufacturing businesses were separately compared with their planning habits. As Tables 2,3 and 4 show, only size, as determined by number of full-time

employees in 1992, showed a relationship with the tendency to prepare or not prepare a written business plan. Legal status and size as determined by gross sales showed no relationship.

Summary

This chapter analyzed the findings of the study. The data was divided into eight sections: Business Demographics, Business Plan Statistics, Business Planning Rationale, Business Plan Contents, Business Plan Preparation, Business Owners Perception of Usefulness and Price, Business Owners Awareness of Planning Services, and Other Findings. The next chapter will further interpret the data and make recommendations.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The goal of this chapter is to further interpret the data illustrated in Chapter IV. A summary of the study, conclusions as well as recommendations to appropriate organizations are provided. Finally, further recommendations for research are given.

Summary of the Study

The major purpose of this study was to explore the business planning habits of Montana-based small manufacturing firms, the owners' perceptions in relation to business planning and its uses, as well as their awareness of outside help.

The need for the study was created by an understanding of the positive role written business plans play in facilitating small business success and by the significant role small businesses themselves play in stimulating the economy. Information that might be used in improving the current business planning practices of Montana's small

manufacturing businesses could eventually lead to an improved state economy.

The study was limited to manufacturing firms that operated within the state of Montana at the time the study took place. Out of the 200 questionnaires that were mailed, 100 were returned and 53 were suitable for use in this study.

The following topics were analyzed in the literature review: The need for planning, advantages and disadvantages of business planning, relation of business planning to organizational performance, small business owners and planning, business planning and financing, getting professional advice, and business plan contents.

The final survey instrument, a self-administered questionnaire, was developed after reviewing the related literature and consulting with the graduate committee.

This study used data that were derived from responses to the questionnaire and were analyzed using the SAS statistical package. Relevant facts and figures that were derived from the literature were also used.

Finally, the study was organized into five chapters that used related subtopics. Sources of data were cited and subjects were analyzed.

Conclusions

Based on the findings presented earlier, the following conclusions can be reached:

1. Approximately three out of four "small" manufacturing businesses in Montana fell within the "very small" business category. According to the President's Report published in 1989, an organization with less than 20 employees is considered "very small," whereas an organization that has between 20 and 99 employees is considered "small."
2. Approximately eight out of ten Montana based "small" manufacturing businesses had gross sales under one million dollars.
3. Approximately one out of three (36%) "small" manufacturing businesses has used a written business plan at some point in time. One out of five (20%) "small" manufacturing businesses has prepared a written business plan upon starting their business. In addition, roughly seven out of ten (68%) of the "small" manufacturing firms that have used a business plan at some point in time, continue to routinely use a business plan today.
4. Giving direction to their company was the most common reason that prompted "small" manufacturing firms to prepare a written business plan at some point in time, i.e. upon starting their business or later. The project demonstrated that nearly half (47%) of the aforementioned firms that

developed a plan did so in order to give direction to their company. One fourth of the same firms (26%) had prepared a written business plan because it was a bank requirement whereas the rest (26%) had prepared a plan for both reasons.

5. The vast majority of "small" manufacturing firms that had prepared a written business plan because it was a bank requirement for financing were not routinely using a business plan afterwards. Only one out of five (20%) did. In contrast, almost nine out of ten (86%) of those firms that had prepared a written business plan in order to give direction to their company or for both reasons (i.e. to give direction to their company and to fulfill a bank requirement) continued to routinely use a business plan.

6. The most common reason that prevented "small" manufacturing firms (35%) from preparing a written business plan was that they 'never thought about it.' The second most common reason (25%) was that they 'didn't think it was necessary.' Contrary to the suggestions of the literature review, none of the "small" businesses refrained from planning because it was too expensive and only a few (6%) did not prepare a plan because it was too time consuming.

7. The three major planning elements that appeared more frequently in a business plan were a mission statement (77%), an analysis of strengths and weaknesses (71%) and projected financial statements (65%).

8. The two most prevalent sources that provided business planning assistance to "small" manufacturing firms were people within their company (47%) and their accountant (27%).

9. All of the firms that had developed a written business plan at some point thought it was helpful to some degree. Roughly, one out of three (32%) thought a business plan had been very helpful.

10. All of the "small" manufacturers that had never developed a plan were unwilling to pay over \$750 to have a business plan prepared, if they decided they needed one. Furthermore, approximately half of them (52%) were unwilling to pay over \$250.

11. Almost half of the "small" manufacturers that had never developed a plan (46%) thought that a written business plan could be useful to the future success of their company. Nevertheless, only a few (15%) intended to have one prepared in the future.

12. Accounting firms had the highest level of recognition as providers of business planning services among the "small" manufacturing firms that had never prepared a plan. The findings show that nearly eight out of ten (75%) manufacturers were familiar with accountants as a source for business planning help, and almost half (54%) were familiar with private business planning consultants. Approximately, only two out of five manufacturers (42%) were aware of the

SBA as a place where business planning services might be offered and only one out of three (33%) was aware of SCORE.

13. Size, as determined by number of full-time employees in 1992, showed a relationship with the tendency to prepare or not prepare a business plan.

14. It is possible that this study is subject to non-respondent bias because only 50% of the sample participants responded. What is encouraging, however, is that five of the firms that did not respond were interviewed via phone and were found to have similar responses and demographic data as those who responded.

Recommendations

Upon reviewing the major findings of this study as well as the current literature, incorporation of the following recommendations by the appropriate parties is suggested:

Business Groups

Business support organizations such as the Chamber of Commerce, the Montana Manufacturer's Association and others should engage in an educational effort whereby the value of business planning is clearly conveyed to small manufacturing firms. Undoubtedly, written business plans can benefit Montana's small business community. Empirical studies have

clearly shown a positive relationship between planning and organizational performance. (Shrader et al 1989) Moreover, the general agreement among small business consultants is that business plans are essential for success. (Cook 1991) If the above data as well as the fact that small businesses play a key role in creating new jobs are accepted as accurate, it should follow that a good way to stimulate the economy would be to convince more small manufacturers (and other small businesses) to develop written business plans.

SBA

The Small Business Administration should take more aggressive steps in promoting awareness of the business planning related assistance it can render to small manufacturers. Since less than half of Montana's small manufacturing firms know about the SBA's business planning services, it would be natural to assume that if more firms were aware of the aforementioned services, more would take advantage of them. Nevertheless, this assumption has not been verified with empirical data. In addition, it should be remembered that being a federal government agency, the SBA is subject to budgetary constraints.

Small Manufacturing Firms

Small manufacturers should develop written business plans. The size and complexity of a plan should fit the needs of every particular organization. Among other things, a well thought out business plan can provide a small business with clear direction, help it uncover weaknesses and raise capital. (Orpen 1985) Written business plans are especially recommended for start-up operations because of their inherent capacity to provide a 'reality check' to the prospective business owner. Sometimes, the best result a business plan may accomplish is to cause such a person to decide not to start a business that was doomed to fail, thus saving him money and potential frustration.

Montana Department of Commerce

The Montana Department of Commerce should consider developing an authoritative business planning guide that could be used within the state of Montana. Such a guide might serve as a statewide standard, thus eliminating confusion as to what a business plan should and should not include.

Financial Institutions

Banks and other financial institutions should recognize that forcing business owners to prepare a written business plan when requesting a loan will not necessarily prompt them to use it afterwards as a management tool. This applies to small manufacturers whose only reason for preparing a business plan is to fulfill a bank's requirement. Most banks typically request a business plan before granting a loan to small businesses, in order to ensure that the prospective borrower knows his business, has a blueprint for success and has the capacity to pay back the loan from the cash proceeds. (Handles 1993) Nevertheless, the vast majority of the aforementioned small manufacturers will not routinely use the plan once they receive the loan. As a result, their chances of success will remain the same, as if they did not prepare a business plan in the first place.

Many banks demand collateral and monthly financial reports as conditions for granting loans. In order to further protect their investment and expand a business's chances of success they might require that small manufacturers who receive loans use the services of experienced business consultants for a predetermined period of time. This approach is currently being used by the Women's Economic Development Group (WedGo), a Montana based

small business support group that provides guarantees for small business loans and occasionally provides direct loans.

Business Colleges

Business colleges should consider incorporating a business planning class (required or elective) in their business curriculum to better prepare those students who would like to start their own business. Again, this recommendation is based on the premise that a well thought out business plan can increase the possibilities of organizational success. (Bracker 1991)

Federal Government

The federal government should examine the possibility of making business planning skills an optional part of job-retraining programs. The goal would be to empower and possibly encourage willing workers that have been displaced to start their own business.

Future Researchers

Future researchers should conduct periodic studies that expand on this study. In addition, another longitudinal study might be conducted in order to validate the positive

correlation between business planning and organizational success as reported by other researchers. Finally, this study may be expanded to include more detailed questions that examine not just what business owners think about business plan usefulness and price but other perceptions as well.

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APPENDICES

APPENDIX A
COVER LETTER

April 15, 1993

Dear Montana Businessperson:

We are interested in learning about the use of business plans by Montana's manufacturing firms. Your name was randomly drawn from the Montana Manufacturers Directory for 1991-1992. Would you please take a few minutes to complete the enclosed questionnaire and return it in the postage-paid envelope. It is very important that you complete and return the questionnaire so that our sample will be scientifically valid.

We are asking that this survey be completed by either the owner, president, general manager, chief financial officer or chief operating officer of your company.

The results of this survey will be used to better understand the needs of Montana's manufacturers and to guide those who do consulting with these firms. Only summary statistics will be included in our analysis. Your specific data will be kept in strict confidence.

This research is part of Mr. Makris' graduate research project. I am on his graduate committee. If you have any questions, please contact either one of us. Thank you for taking the time to help us with this project.

Sincerely,

Dr. Shannon Taylor
Assistant Professor

Mr. George Makris
Graduate Student

APPENDIX B

SURVEY INSTRUMENT

All businesses, from the smallest sole proprietorship to the largest corporations, plan for the future. Some planning techniques are very informal, looking only at the immediate future. Others are very formal, covering short-term tactics as well as long-term strategies and policies. Montana's growing manufacturing sector is vital to our economy and as such it deserves special attention. Your input as a general manager or business owner is greatly valued. Please take a few minutes to answer the following questions:

ATTENTION: THIS QUESTIONNAIRE SHOULD BE COMPLETED BY ONE OF THE FOLLOWING OFFICERS: OWNER, PRESIDENT, GENERAL MANAGER, CHIEF FINANCIAL OFFICER, CHIEF OPERATING OFFICER. THANK YOU.

1. Are you primarily a manufacturing company?
 - Yes—please complete the questionnaire.
 - No—please return our questionnaire in the return envelope, and thank you for your time.
2. What is your position with your firm?
 - Owner
 - Manager
3. In what year did your company start operation? Year _____
4. How many employees did you have during 1992?
 - Full Time, not including yourself:
 - 0-5__ 6-10__ 11-20__ 21-30__ 31-50__ Over 50__
 - Part-time or seasonal:
 - 0-5__ 6-10__ 11-20__ 21-30__ 31-50__ Over 50__
5. What type of legal status does your business hold?
 - Sole Proprietorship__ Partnership__ Corporation__
6. What was the range of your firm's gross sales in 1992?
 - ___ \$100,000 or less
 - ___ \$100,001 to \$250,000
 - ___ \$250,001 to \$500,000
 - ___ \$500,001 to \$1,000,000
 - ___ \$1,000,001 to \$2,000,000
 - ___ \$2,000,001 to \$5,000,000
 - ___ \$5,000,001 or more

IF YOU HAVE EVER USED A WRITTEN BUSINESS PLAN, PLEASE ANSWER THE FOLLOWING QUESTIONS. IF NOT, PLEASE GO TO QUESTION #16 ON PAGE 3.

7. Did you have a written business plan when you started your company?
 - Yes
 - No

8. Do you routinely use a business plan today?
 Yes
 No
9. Why did you develop a written business plan?
 It was a bank requirement for a loan application.
 I wanted to give direction to my company.
 Both
 Other, please explain _____

10. Do you feel the business plan was helpful overall?
 Very helpful
 Helpful
 Slightly helpful
 Not helpful at all
11. If you felt the business plan was helpful, where specifically did it help?

12. Who (if anyone) has helped you in developing your business plan? (check all that apply)
 People within my company
 My accountant
 An independent accounting firm
 An independent business consultant who was not an accountant
 My bank
 Faculty from the local college or university
 Students from the local college or university
 Small Business Administration
 Service Corps of Retired Executives (SCORE)
 A book or software on planning
 I received no help at all
 Other, please explain _____

13. If someone else has helped you prepare the plan, how much did you pay for that service?
 Free
 Less than \$250
 \$251 to \$500
 \$501 to \$750
 \$751 to \$1,000
 \$1,001 to \$2,000
 Over \$2,000
14. Please indicate the time frame your business plan covered:
 Less than a year
 One year
 Two years
 Three years
 More than three years

15. Please indicate which of the following elements were included in your business plan:
- Industry analysis
 - Competition analysis
 - Analysis of events beyond your control (e.g. economy, social trends)
 - Analysis of strengths and weaknesses within your company
 - Mission statement
 - Objectives that are specific and have time frame
 - Strategies that help you accomplish the objectives
 - Marketing plan
 - Technology and process analysis
 - Projected financial statements
 - Other, please specify _____

THANK YOU FOR TAKING THE TIME TO COMPLETE OUR QUESTIONNAIRE.

* * * * *

IF YOU DID NOT HAVE A WRITTEN BUSINESS PLAN, PLEASE ANSWER THE FOLLOWING QUESTIONS:

16. I did not prepare a business plan because:
- It was too time consuming
 - It was too expensive
 - I didn't have the skills
 - I didn't think it was necessary
 - I never thought about it
 - Other, please explain _____
-
17. Although I did not prepare a business plan, I think a written business plan can be useful to the future success of my business:
- Yes
 - No
 - Don't know
18. If I decided to have someone prepare a professional business plan, I would be willing to pay what amount for that service:
- Less than \$200
 - \$251 to \$500
 - \$501 to \$750
 - \$751 to \$1,000
 - \$1,001 to \$2,000
 - \$2,000

19. Although I did not prepare a written business plan, I maintain control by: (check all that apply)
- Reviewing my financial statements
 - Keeping track of my sales
 - Talking to my accountant
 - Keeping track of my costs and expenses
 - Talking with vendors and suppliers
 - Other, please specify _____
-
20. As a business owner I:
- Try to anticipate changes and prepare for them
 - Respond to changes as they occur
21. Do you intend to have a business plan done in the future?
- Yes
 - No
 - Unsure
22. I am aware of the business planning services offered by:
- Accounting firms
 - Banks
 - Small Business Administration
 - Service Corps of Retired Executives (SCORE)
 - Local college or university
 - Private business consultants
 - Other, please specify _____
-

THANK YOU FOR TAKING THE TIME TO COMPLETE OUR QUESTIONNAIRE.

* * * * *

If you would like to receive a copy of the survey results, please provide your name and address below:

NAME _____

ADDRESS _____

THANK YOU VERY MUCH FOR TAKING THE TIME TO COMPLETE AND RETURN THIS QUESTIONNAIRE. YOUR EFFORT IS DEEPLY APPRECIATED.

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