CHAPTER THREE: THE STUDY'S METHODOLOGY

3.1 The Methodology

In the process of exploring the true perception of business planning towards business performance, a field study using mailed questionnaires was conducted.

The questionnaires were targeted to the top management executives, Chief Executive Officers or Managing directors of the respondents. The study used correlational analysis to determine the attitude and perception of respondents towards the business planning and business performance relationship. It is also explore the respondents' perception about the concept of formal business planning.

3.2 The Study Sample of Respondents

The study has selected a group of respondents specifically from the operators of small and medium sized business. The study adopts the definition of small and medium sized business as outlined by SMIDEIC, ie a company with an annual sales turnover of not exceeding RM25.0 million and a permanent (full time) staff strength of not more than 150.

The sample of respondents are divided into two main groups, namely:

a) 100 respondents from SMIDEIC name list of which appeared in SMI directory 1999. These respondents were the winners of Enterprise50 award for year 1997 & 1998. Enterprise50 award is the coveted recognition for the government, specifically, Ministry of International Trade and Industry acknowledging the company impressive business
performance and deemed to be the most progressive home-grown small and medium sized companies available in the market.

b) 50 respondents from the Malay Chamber of Commerce and Industry (Wilayah Persekutuan and Selangor chapter). These group of respondents were randomly selected in the Chamber’s namelist targeting for small and medium sized operation.

Enterprise50 companies are selected as they are suitable candidates to gauge the extend of relationship between formal business planning and business performance. On the other hand, the inclusion of Bumiputra respondents are meant to gauge the perception of Bumiputra entrepreneurs toward business plan and firm’s performance.

Generally, for the Enterprise50, the respondents make up approximately 22.6% of the total population of SMIDEC memberships (100 companies out of 443 companies registered under the SMIDEC grouping). Whereas for Bumiputra companies, the respondents constitute at about 55.6% of the total memberships for Klang Valley (50 companies out of 90 companies available in the DPMM Klang Valley namelists).

3.3 The Research Instruments

The survey involved an attitude measurement with unidimensional method. The concept that the study aims to measure is one-dimensional in nature, and involves in cognitive component attitude measurement, ie the way a person mentally evaluates the object or idea. In the process of gauging the respondents’ cognitive attitude, the questionnaire used attitude statements. These attitude statements are single sentences that express a point of view, a belief, a preference, a judgement, an emotional, or an opinion (for or against an issue). The study used correlational
analysis to identify and justify the factors affecting the relationships between business planning and business performance.

 Basically, the questionnaire is divided into four sections, namely  

 a) Section A: Explaining the demographic profile of the respondents involved. Basically, this section is meant for the research to effectively interpret the gathered data according to the profile of the respondents. This section will help the research conducting meaningful crosstabulation of the gathered data to derive the demographic profile of the respondents.

 b) Section B: Gauging the respondents' perception about the role of formal business planning and ascertaining the important factors that make up a comprehensive formal business plan. This section is separated into 2 parts. The first part is attitude measurement, with positive and negative attitude statements. This is done to gauge the respondents' cognitive belief and attitude towards the role of a formal business plan. As for the other part of the section, it is meant to identify the probable factors that make up a comprehensive business plan.

 c) Section C: Determining the respondents' perception towards the relevance of business planning and business performance. This section also involves establishing the real situation of the respondents' engagement in formal business planning. This section is also divided into two parts. Part I deals with the attitude statements pertaining to the relevance of business planning towards the business performance. The main task for this section is to actually determine the affect of formal business planning towards the business performance based on the cognitive evaluation of the respondents. In part II, the questionnaire poses 5 main elements in formal business planning for the respondents to answer and gauge the extent of involvement in their
respective companies. The aim is to "measure" the respondents' involvement in some aspect of formal business planning.

d) Section D: Ascertaining the respondents' perception towards the pre-determined business performance factors that may be affected by the formal business planning. The final part of the questionnaire is devoted to justify any available relationship between the formal business plan and business performance. The justification of the relationship existence is base solely on the respondents' cognitive belief and attitude.

3.4 The Research Analysis

In general, the study's first objective was actually achieved merely by the extensive literature review brought forward in the chapter two. However, writer has allocated part II of the Section B of the mailed questionnaire, specifically to justify the factors that were perceived to have an effect in forming a comprehensive formal business plan. The importance of these factors in relation to the existence of a complete business plan is measure via likert scaling. The use of likert scaling is prevalent in this study since, the majority of the analysis was more towards perception and attitude measurement.

On the other hand, the second objective of the study was derived from the Section C of the questionnaire. In the process of gauging the extent to which the formal business plan was actually conducted by the respondents, the study adopted five yardsticks developed by the Babson College of Entrepreneurship. These items were also used to gauge the presence of any relationships between formal business planning and business performance. The five yardsticks were market/industry analysis, competitive analysis, marketing planning, organizational planning and
financial projection. The respondents were asked, "when this business was first started, to what extent were the following done". Respondents rated the five items using a semantically-anchored 4 points scale that ranged from 1, for "not done at all" and 4 for "done very extensively".

Business performance was assessed using four variables. Single item measures were use to assess sale growth, return on sales, financial strength and profitability.

In general, the study used correlation analysis to evaluate the extent to which performance measures and planning measures were related. To identify the important factors that make up a comprehensive formal business planning, the study used item-total correlation procedures. Through this procedure, the correlation coefficient explained the strength of relationships between the identified factors in part II of section B from the questionnaire.

It is axiomatic to note here that, the analysis done on the collected data was assisted by the statistical SPSS for windows version 9.05 software.

### 3.4.1 Descriptive Statistics

The study started its first data analysis by collating data pertaining to the demographic profile of the respondents. This was done by applying descriptive statistic methodology onto the data set obtained in the section A of the questionnaire. It is a simple procedure to gauge the responses based on numerical scale. Through SPSS, the study has performed descriptive statistic
analysis and the results were presented in the frequency distribution format. This is an important initial step for the study to describe the characteristics of the respondents. Through descriptive analysis, the collected data will then be transformed into a form where it is easily understood and interpreted. The result of descriptive analysis describing responses is via calculation of averages, frequency distributions and percentage distributions.

The complete descriptive statistical results were presented in chapter four. In summation, the majority (exceeding 65%) of the respondents were from the manufacturing sector that posses more than RM1.0 million paid up capital. They were in operation more than 5 years and about 47% were having high gearing ratio. 81% of the respondents were having highly educated top management's executives. It was noted that more than half of the respondents had or have embarked on formal business planning for their respective organizations. Further inference on the discussion of results will be dealt in great details in the subsequent chapter.

3.4.2 Crosstabulation

Frequency tabulation alone doesn't adequately explain the respondents' characteristics thoroughly. Hence, another statistical procedure, called crosstabulation was adopted in the study to obtain meaningful interpretation of the previous result derived in the preceding procedure. The purpose of crosstabulation is to allow the inspection of differences among groups and to make comparisons. Crosstabulation creates contingency table. Contingency table is a table showing the responses of subjects to one variable as a function of another variable. The contingency table helps the writer to look at whether or not the value of one variable is "contingent"
upon that of the other. This procedure is useful for the research since it has few categories of items for us to examine its relationships.

As previously mentioned, the contingency tables were used to examine the relationships between subjects' score on two variables. The test to arrive the presence of the relationship is called "the chi-square test of independence". If the columns are not contingent on the rows, then the rows and column frequencies are independent. This can be identify by observing the probability value (p-value) of the chi-square test. The choice of p, is somewhat arbitrary, but by convention, p value of less than 0.05 and 0.01 are most commonly used. If p value less than 0.05, it is said that there is statistically significant relationships between the two variables, and the row and column frequencies in the contingency table are contingent (depends upon) each other, and we may reject the null hypothesis. The null hypothesis is that there is no relationship between row and column frequencies.

The complete contingency tables and its result were presented in chapter four. From the results, it was clearly defined that there is no statistically significant relationships between formal business planning existence with the type of respondents, ratio of the companies' loan to equity, the companies' top management executives and the companies' ratio of oversea sales contribution to the total annual turnover. The in-depth discussion pertaining to the results will be dealt in the forthcoming chapter four.

3.4.3 Correlation
Correlation procedure was adopted extensively throughout this study to derive the important factors that constitute a comprehensive business plan as well as determining the presence of relationship between business planning and business performance. This section will discuss the procedures done in the process to gauge the respondents' cognitive belief and perceptions toward the roles of formal business planning and its relation with business performance. Part I of the section B from the questionnaire posed several questions dealt with attitude measurements about the role of business planning. Some of the questions have been positively stated and others negatively stated. The positive statements will have the value 6 for "strongly agree" down to 1 for "strongly disagree". However, for the negative statements, "strongly agree" denotes a negative feeling and will have to receive a value of 1 and " strongly disagree" value is 6. The study applied item-total correlation to analyze the relationships of responses. Item-total correlation is done in order to compute the intercorrelations between all pairs of items based on rating of the respondents, and to throw out items that have a low correlation with the total (summed) score across all items. The result of the procedure is shown in appendix III. There exist no fixed rule how low the correlation coefficient should we use to throw out the relevant items. Based on normal practices, this study has adopted a cut off point for correlation coefficient not less than 0.30. Any items resulted in correlation coefficient lesser than 0.3 will be disregarded in this study.

The study has conducted three sets of correlation analysis on the data gathered in both parts of section A and part I of section C from the questionnaire. Total-item correlation was adopted onto the
three sets of the collected data to gain insights of relationships that the respective items may have.

3.4.4 Regression

Another concept related to correlation is linear regression. Regression is a technique for measuring the linear association between a dependent and independent variable. Regression analysis allows the study to determine how well one variable can be used to predict another. The primary goal of regression analysis in the study is to examine and explore relationship between business planning and business performance. As previously mentioned in the earlier part of this chapter, the formal business planning construct is measured from the 5 identified variables and business performance is from the 4 identified variables appeared in section C and section D respectively. There exist several numbers of measures that are particularly noteworthy in regression analysis results. Firstly, the R-square indicates the proportion of variance in the dependent variable explained by the independent variable. Secondly, the Standard Error indicates how far off the result would be, on average, if we were to use the independent variable to predict scores on the dependent variable.

From the regression analysis done onto business planning and business performance constructs, there exist very weak relationships among the two constructs. This explained that business planning is relatively having tenuous effect onto business performance.