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# Associations of Small Business Entrepreneurs as “Voluntary” Organizations for SME Managers and Their Campaign for the Documentation of Management Principles\*

SEKI, Tomohiro

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## I . What Are Associations of Small Business Entrepreneurs?

There are a number of organizations for small and medium-size enterprises (SMEs) consisting of the managers for those enterprises throughout Japan. Generally speaking, government-affiliated organizations for SMEs are well known, including chambers of commerce and industry that support commercial traders, commerce and industry associations that support small enterprises, and the National Federation of Small Business Associations that support small business organizations, such as small and medium-sized enterprise cooperatives. These government-affiliated organizations for SMEs were established as part of the government's policies on such enterprises, with expenditures being allocated to SMEs in order to implement

those policies.

In recent years, Associations of Small Business Entrepreneurs have emerged as remarkable organizations for the managers of such enterprises which, unlike government-affiliated organizations for SMEs, aim to further develop their own businesses through “voluntary” activities. The Associations of Small Business Entrepreneurs are managerial organizations that exist in all 47 prefectures throughout Japan, for the purposes of “making better companies,” “making better managers” and “making better management environments.” These associations differ significantly in nature from thefore mentioned government-affiliated organizations for SMEs, since they operate completely based on voluntary membership fees without depending on any subsidies, and with their activities principally based on reporting and

discussions made by managers. The Associations of Small Business Entrepreneurs have a total of 41,000 members nationwide as of March 2009. (For example, Associations of Small Business Entrepreneurs in Osaka Prefecture and Hyogo Prefecture have about 2,900 and 1,300 members, respectively.) The National Conference of the Association of Small Business Entrepreneurs is the organization that oversees Associations of Small Business Entrepreneurs in all 47 prefectures of the nation.

Generally speaking, the branch units of general member companies of Associations of Small Business Entrepreneurs conduct most of the activities involved. The Associations of Small Business Entrepreneurs in Hyogo Prefecture (hereinafter referred to as the “Hyogo Association”) is divided based on geographical regions in Hyogo Prefecture into 11 branches: Hanshin Branch, East Kobe Branch, Kobe Central Branch, Naka Kobe Branch, Hyogo Branch, West Kobe Branch, Toban Branch, Hokuban Branch, North Harima Branch, Hana Harima Branch, and West Harima Branch (in random order). The managers of member companies belonging to the same branch are afforded the opportunity to get to know each other through management experience presentations and other means at regular branch meetings. Therefore, we can assume that members in the same branch know each other very well through interpersonal exchange in connection with activities of the Hyogo Association.

There is actually limited exchange between the members of different branches. This is why block meetings designed to promote inter-branch exchanges have been developed by reorganizing branches into several regional blocks. Another exceptional example of where members from different branches can proactively interact would be board member meetings. The

Hyogo Association and most other associations have a general assembly (the primary decision-making body) as well as a board of directors (a subsidiary organization to the general assembly). Furthermore, these associations have directors (e.g., representative directors, vice representative directors, directors) as board members, branch managers and steering committee members, as well as prefectural committee and branch committee members. The Hyogo Association has seven committees (specifically, the Management and Labor Committee, Human Resources Development Committee, Collaborative Recruitment Committee, Organizational Committee, Management Environment Improvement Committee, Public Relations Committee, and Information Promotion Committee—in random order) (and Branch Revitalization Committee), a youth group and a women’s group, as well as industry cluster groups. The board of directors is comprised of a representative director, vice representative director, branch managers, and other directors (e.g., chairman of a specialized committee, head of the youth group, head of the women’s group, branch managers, directors recommended by branch managers). The Hyogo Association periodically holds meetings attended by the representative director, vice representative director, and branch managers, as well as holding a meeting attended by the representative director, vice representative director and committee chairmen. It is assumed that those who have served as board members know each other better than those who have not served as board members, since former board members have more opportunities to see each other through activities of the Association.

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## II. Actual Conditions of Activities of Association of Small Business Entrepreneurs

### 1. Overview of the Survey

In order to grasp the actual conditions of activities conducted by the Association of Small Business Entrepreneurs based on relevant data, we conducted a questionnaire survey targeting member companies of the Hyogo Association from November to December 2005. The questionnaire survey was sent and collected by mail, with 274 out of 750 total companies responding to the survey (for a response rate of 36.5%).

A breakdown of these 274 companies by

industry reveals: 50 companies in the construction industry, 30 companies in the consumer goods manufacturing industry, 48 companies in the products manufacturing industry, 50 companies in the commercial industry, 46 companies engaged in personal services, and 50 companies engaged in business services (see Chart 1 below). There were 18.8 employees on average per company, with relatively small variations among the companies (Chart 2). In examining the breakdown by region of company location, samples from East Kobe and Nada were small, but no significant variations were seen in the composition of other regions (Chart 3).

Chart 1: Companies Sampled by the Questionnaire (Breakdown by Industry)

	Number of companies	Ratio
Construction industry	50	18.2%
Manufacturing industry (consumer goods)	30	10.9%
Manufacturing industry (products)	48	17.5%
Commercial industry	50	18.2%
Personal services	46	16.8%
Business services	50	18.2%
Total	274	100.0%

Source: Based on the questionnaire survey targeting member companies of the Hyogo Association conducted in November 2005

Chart 2: Companies Sampled by the Questionnaire (Breakdown by Number of Full-time Employees)

Frequency	Smallest value	Largest value	Average	Standard deviation
274	0	430	18.83	33.03

Source: Same as Chart 1.

	Frequency	Percent	Effective %	Accumulative %
4 employees or less	65	23.7	23.7	23.7
5 to 9 employees	64	23.4	23.4	47.1
10 to 19 employees	74	27.0	27.0	74.1
20 to 49 employees	48	17.5	17.5	91.6
50 employees or more	23	8.4	8.4	100.0
Total	274	100.0	100.0	

Source: Same as Chart 1.

Chart 3: Companies Sampled by the Questionnaire (Breakdown by Region of Company Location)

	Frequency	Percent	Effective %
Chuo ward, Kita ward	63	23.0	23.0
Hyogo ward and to the west	52	19.0	19.0
Higashi Nada ward, Nada ward	23	8.4	8.4
Hanshin region	46	16.8	16.8
Toban and Hokuban region	41	15.0	15.0
Himeji and Seiban region	49	17.9	17.9
Total	274	100.0	100.0

Source: Same as Chart 1.

## 2. Survey Results

Items for the questionnaire were added as special questions under the title “About Activities of the Association” toward the end of the survey on economic sentiment<sup>1)</sup> that has targeted the managers of member companies of the Hyogo Association since the Great Hanshin-Awaji Earthquake. With regard to activities conducted by the Association, questions about the frequency of attending activities were included in addition to the aforementioned questions on the length of membership, as well as whether members have served as board members. The benefits gained by the members from participating in activities of the Association were also included as question items. Given the above, the following four items were included as questions and the scope of analysis<sup>2)</sup>: “(1) Length of membership,” “(2) Whether the member has served as a board member (e.g., director, branch steering committee member, member of a prefectural committee or branch committee), and years of experience as a board member,” “(3) Frequency of attending activities of the Association,” and “(4) Benefits gained from participating in activities of the Association.”

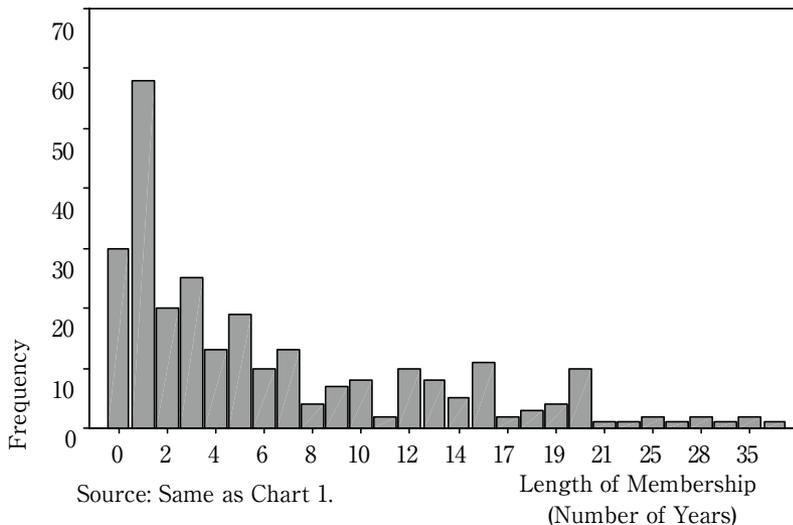
Let’s take a look at “(1) Length of membership.”

For this item, we asked respondents to fill in the approximate number of years of membership (hereinafter referred to as “length of membership”) in response to the question: “How long have you been a member?” Responses to this question revealed an average value of 6.7 years (with standard deviation of 7.45 as shown in Chart 4). However, as you can see from the frequency distribution graph, the length of membership for the majority of members was approximately one year.<sup>3)</sup> When dividing the members into those who have been members for 10 or more years and those who have been members for less than 10 years, it is clear that the majority (approximately 73%) of them have been members for less than 10 years. (Chart 5)

Next, let’s take a look at “(2) Whether the member has served as a board member (e.g., director, branch steering committee member, member of a prefectural committee or branch committee), and years of experience as a board member.” For this item, we asked the respondents to fill in the number of years of experience as a director, branch steering committee member, member of a prefectural committee or branch committee, respectively, in response to the question: “Have you served as a

**Chart 4: Summary of Statistics and Frequency Distribution Graph of Length of Membership**

Frequency	Smallest value	Largest value	Average	Standard deviation
273	0	45	6.65	7.45



**Chart 5: Frequency Distribution of Members with Less Than 10 Years of Membership and Members with 10 or More Years of Membership**

	Frequency	Percent	Effective %
Less than 10 years	199	72.9	72.9
10 or more years	74	27.1	100.0
Total	273	100.0	

Source: Same as Chart 1.

board member for the Association (e.g., director, branch steering committee member, member of a prefectural committee or branch committee)?” We only looked at the answers to determine whether the respondents have the experience as a board member. The survey results showed that 39.2% of members have served as a board member and 60.8% have not been served as a board member (based on valid answers). This indicates that about 40% of members have served as some kind of board member for the Association in the past (Chart 6).

Let’s move on to the next item, “(3) Frequency of attending activities of the Association.” We asked the respondents about their frequency of attending activities of the Association with the following eight options: “(1) Twice a week or more,” “(2) Once a week,” “(3) Twice to three times a month,” “(4) Once a month,” “(5) Four to five times every six months,” “(6) Twice to three times every six months,” “(7) Once every six months,” and “(8) Once a year.” As a result, the largest number of respondents chose “(4) Once

a month” (29.6%; 76 out of 257 total answers), followed by “(3) Twice to three times a month” (18.7%; 48 out of 257 total answers) and “(6) Twice to three times every six months” (14.8%; 38 out of 257 total answers) (Chart 7).

Finally, let’s take a look at “(4) Benefits gained from participating in activities of the Association.” For this item, we included specific options for answers under the categories of items concerning the company’s management activities [(1), (4), (5), (6), (10) and (11)], items concerning the management and employees [(7), (8) and (9)], and items concerning collaboration with other companies [(2) and (3)] in response the question: “What kind of benefits have you obtained from participating in activities of the Association?” Although another option “(12) Other” was included in the actual questionnaire, we excluded this item from the scope of analysis. On an ascending scale of 1 to 5, we asked

respondents to give five points to items for which they “strongly agree,” three points to items for which they “do not agree or disagree (no opinion),” and one point to items for which they “strongly disagree.” Specific question items are listed under Chart 8 below.

Chart 9 below shows the overall average value for each item. Looking at Chart 9, the items that far exceeded the intermediate value of 3.0 were: “(2) I could deepen exchanges with other business managers” (at 3.99) and “(8) I could enhance my awareness as a business manager” (at 3.91). These items were followed by items recording similar values: “(4) My management principle has become clearer,” “(7) I learned to make decisions based on a broad source of management information,” “(5) My company’s strengths have become clearer,” “(9) I could deepen a relationship based on trust with my employees,” and “(10) My company’s business operations have been streamlined.” The

**Chart 6: Have You Served as a Board Member for the Association?**

	Frequency	Percent	Effective %	Accumulative %
Yes	102	37.2	39.2	39.2
No	158	57.7	60.8	100.0
Total	260	94.9	100.0	

Source: Same as Chart 1.

**Chart 7: Frequency of Attending Activities of the Association**

	Frequency	Percent	Effective %	Accumulative %
Twice a week or more	18	6.6	7.0	7.0
Once a week	24	8.8	9.3	16.3
Twice to three times a month	48	17.5	18.7	35.0
Once a month	76	27.7	29.6	64.6
Four to five times every six months	19	6.9	7.4	72.0
Twice to three times every six months	38	13.9	14.8	86.8
Once every six months	22	8.0	8.6	98.3
Once a year	12	4.4	4.7	100.0
Total	257	93.8	100.0	

Source: Same as Chart 1.

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**Chart 8: Benefits Gained from Participating in Activities of the Association (Questions)**

- |   |
|---|
| <p>( 1 ) I reinforced my own company’s management base by re-launching the business.<br/> ( 2 ) I could deepen exchanges with other business managers.<br/> ( 3 ) I collaborated with other companies and entered a new line of business.<br/> ( 4 ) My management principle has become clearer.<br/> ( 5 ) My company’s strengths have become clearer.<br/> ( 6 ) I improved my own company’s financial structure.<br/> ( 7 ) I learned to make decisions based on a broad source of management information.<br/> ( 8 ) I could enhance my awareness as a business manager.<br/> ( 9 ) I could deepen a relationship based on trust with my employees.<br/> (10) My company’s business operations have been streamlined.<br/> (11) I arranged and introduced some operations of the Association to my own company.</p> |
|---|

Source: Same as Chart 1.

**Chart 9: Benefits Gained from Participating in Activities of the Association (Survey Results)**

	Frequency	Average
( 2 ) I could deepen exchanges with other business managers.	231	3.99
( 8 ) I could enhance my awareness as a business manager.	228	3.91
( 4 ) My management principle has become clearer.	220	3.49
( 7 ) I learned to make decisions based on a broad source of management information.	223	3.45
( 5 ) My company’s strengths have become clearer.	221	3.34
( 9 ) I could deepen a relationship based on trust with my employees.	223	3.26
(10) My company’s business operations have been streamlined.	219	3.16
(11) I arranged and introduced some operations of the Association to my own company.	219	3.05
( 1 ) I reinforced my own company’s management base by re-launching the business.	215	2.99
( 6 ) I improved my own company’s financial structure.	218	2.88
( 3 ) I collaborated with other companies and entered a new line of business.	213	2.46

Source: Same as Chart 1.

Association focuses on these items and it became clear that many managers of the member companies recognize each of these points as benefits to be gained through activities of the Association. Conversely, the survey clearly indicated the benefits that managers do not necessarily consider obtainable through activities of the Association as being: “(3) I collaborated with other companies and entered a new line of business,” “(6) I improved my own company’s financial structure,” and “(1) I reinforced my own company’s management base by re-launching the business.” The item

showing a score closest to the average value was “(11) I arranged and introduced some operations of the Association to my own company.”

### III. Association of Small Business Entrepreneurs and the Management of One’s Own Company

#### 1. Length of Membership and Benefits That Can Be Gained from Participating in Activities of the Association

Now I would like to analyze the above data.

First of all, let's look at the correlation between the length of membership and benefits that can be gained from participating in activities of the Association. We used 10 years of membership as a criterion and conducted a t-test (two-sided) in order to determine differences in the average value of benefits that can be gained from participating in activities of the Association between the group of members with 10 or more years of membership and the group of members with less than 10 years of membership (Chart 10).

The test results identified the following three points as characteristics. The first point was that “(3) I collaborated with other companies and entered a new line of business” was the only

item whose score fell below the average value of 3.0 in the list of benefits that can be gained from participating in activities of the Association for the group with “10 or more years of membership.” The second point was that there were only two items [“(2) I could deepen exchanges with other business managers” and “(11) I arranged and introduced some operations of the Association to my own company”] whose scores were above the average value of 3.0 for the group with “10 or more years of membership,” but there were no differences from the scores of the group with “less than 10 years of membership” from a statistical perspective. The third point was that there were two items [“(1) I reinforced my own company's management base by re-launching

**Chart 10: Differences in Average Value for Group with Less Than 10 Years of Membership and Group with 10 or More Years of Membership (Two-sided)**

	Length of membership				t-value
	Less than 10 years		10 or more years		
	Frequency	Average	Frequency	Average	
(1) I reinforced my own company's management base by re-launching the business.	153	2.76	61	3.59	-5.09****
(2) I could deepen exchanges with other business managers.	167	3.95	63	4.11	-1.18
(3) I collaborated with other companies and entered a new line of business.	151	2.32	61	2.82	-2.64***
(4) My management principle has become clearer.	159	3.37	60	3.82	-2.81***
(5) My company's strengths have become clearer.	160	3.18	60	3.75	-4.14****
(6) I improved my own company's financial structure.	157	2.75	60	3.20	-3.21***
(7) I learned to make decisions based on a broad source of management information.	161	3.37	61	3.66	-1.97**
(8) I could enhance my awareness as a business manager.	167	3.84	60	4.10	-1.86*
(9) I could deepen a relationship based on trust with my employees.	162	3.17	60	3.52	-2.96***
(10) My company's business operations have been streamlined.	158	3.08	60	3.38	-2.31**
(11) I arranged and introduced some operations of the Association to my own company.	159	2.98	59	3.24	-1.57

\*\*\*\* refers to 0.1% significance; \*\*\* refers to 1% significance; \*\* refers to 5% significance; \* refers to 10% significance.

Source: Same as Chart 1.

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the business” and “(6) I improved my own company’s financial structure”) ] whose scores were above the average value for the group with “10 or more years of membership” and below the average value for the group with “less than 10 years of membership,” and the differences in average value had statistical significance.

I would like to first talk about what can be implied from the result of the third point, and then cover the first and second points. What I examined here was any difference in average value for the items of benefits that can be gained from participating in activities of the Association between the group with 10 or more years of membership and the group with less than 10 years of membership. As a result of my examination, I confirmed that the scores of the group with 10 or more years of membership were above the average value, the scores of the group with less than 10 years of membership were below the average value, and that differences in average value had statistical significance for both groups. Therefore, I could statistically verify that there are many cases where members of the Association were able to “reinforce their own company’s

management base by re-launching the business” or “improve their own company’s financial structure” by maintaining membership in the Association for 10 or more years.

Now I would like to address the first and second points. One of the possible keys to these points is the correlation between length of membership and participation in activities of the Association. In other words, a long period of membership does not necessarily indicate proactive participation in these activities. Chart 11 below shows a cross-analysis of the results of length of membership and frequency of attending activities to confirm this point.

Chart 11 shows that 18.0% (10.3% + 7.7%) of members with 15 or more years of membership participate in activities of the Association as little as once or twice a year, while 9.4% (2.2% + 7.2%) of members with a short period of membership (less than 5 years) participate at least once a week. As you can see from these findings, a long period of membership alone does not indicate that members are proactively participating in activities of the Association.

**Chart 11: Cross-Analysis of Length of Membership and Frequency of Attending Activities of the Association**

	Less than 5 years		5 to 6 years		10 to 14 years		15 or more years		Total
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	
Twice a week or more	3	2.2%	2	4.1%	5	16.7%	8	20.5%	18
Once a week	10	7.2%	5	10.2%	3	10.0%	6	15.4%	24
Twice to three times a month	24	17.4%	11	22.4%	8	26.7%	5	12.8%	48
Once a month	49	35.5%	18	36.7%	3	10.0%	5	12.8%	75
Four to five times every six months	12	8.7%	3	6.1%	2	6.7%	2	5.1%	19
Twice to three times every six months	27	19.6%	5	10.2%	0	0.0%	6	15.4%	38
Once every six months	10	7.2%	4	8.2%	4	13.3%	4	10.3%	22
Once a year	3	2.2%	1	2.0%	5	16.7%	3	7.7%	12
Total	138	100.0%	49	100.0%	30	100.0%	39	100.0%	256

Source: Same as Chart 1.

## 2. Frequency of Attending Activities of the Association and Benefits That Can Be Gained from Participating in Activities of the Association

Now, let's take a close look at the frequency of attending activities of the Association.

We looked at the cross-analysis of length of membership and frequency of attending activities in Chart 11 above. Chart 12 below shows what we considered differences between the group with 10 or more years of membership and the group with less than 10 years of membership based on the same data. By looking at this chart, it is clear that the values of effective percentage turn around just between “twice to three times a month” and “once a month.” Among the total number of members who attend activities of the Association “twice to three times a month,” 18.8% have been with the Association for 10 or more years and 18.7% have been with the Association for less than 10 years. Conversely, among the total number of members who attend activities of the Association “once a month,” 11.6% have been with the Association for 10 or more years and 35.8% have been with the

Association for less than 10 years. Furthermore, the values of accumulative percentage also turn around between “twice to three times a month” and “once a month.”

Given these findings, I wanted to determine whether the frequency of attending activities of the Association caused any effective differences in average value for benefits that can be gained from participating in activities of the Association. As noted below, I conducted a t-test (two-sided) in order to determine the differences in average value for benefits that can be gained from participating in the Association in each group, by using the differences between “two to three times a month” and “once a month,” that is, “twice a month or more” and “less than twice a month” as criteria (Chart 13).

The following three points were consequently identified as characteristics when compared with demonstrative results regarding length of membership above. The first point was that the only item whose score was below the average value of 3.0 in the list of benefits that can be gained from participating in activities of the Association for the group attending activities of

Chart 12: Cross-Analysis of Length of Membership and Frequency of Attending Activities of the Association (Revised)

	Less than 10 years			10 or more years			Total
	Frequency	%	Accumulative %	Frequency	%	Accumulative %	
Twice a week or more	5	2.7%	2.7%	13	18.8%	18.8%	18
Once a week	15	8.0%	10.7%	9	13.0%	31.9%	24
Twice to three times a month	35	18.7%	29.4%	13	18.8%	50.7%	48
Once a month	67	35.8%	65.2%	8	11.6%	62.3%	75
Four to five times every six months	15	8.0%	73.3%	4	5.8%	68.1%	19
Twice to three times every six months	32	17.1%	90.4%	6	8.7%	76.8%	38
Once every six months	14	7.5%	97.9%	8	11.6%	88.4%	22
Once a year	4	2.1%	100.0%	8	11.6%	100.0%	12
Total	187	100.0%		69	100.0%		256

Source: Same as Chart 1.

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**Chart 13: Differences in Average Value for Benefits That Can Be Gained from Participating in Activities of the Association Based on Frequency of Attending Activities of the Association (Two-sided)**

	Frequency of attending activities				t-value
	Less than twice a month		Twice a month or more		
	Frequency	Average	Frequency	Average	
(1) I reinforced my own company’s management base by re-launching the business.	131	2.85	81	3.21	-2.14**
(2) I could deepen exchanges with other business managers.	143	3.73	84	4.44	-6.82***
(3) I collaborated with other companies and entered a new line of business.	126	2.35	83	2.65	-1.77*
(4) My management principle has become clearer.	134	3.20	82	3.98	-6.07****
(5) My company’s strengths have become clearer.	135	3.10	82	3.78	-5.59****
(6) I improved my own company’s financial structure.	132	2.73	82	3.13	-3.08***
(7) I learned to make decisions based on a broad source of management information.	135	3.20	84	3.85	-5.40****
(8) I could enhance my awareness as a business manager.	139	3.65	85	4.33	-5.87****
(9) I could deepen a relationship based on trust with my employees.	137	3.09	82	3.56	-4.41****
(10) My company’s business operations have been streamlined.	134	2.96	81	3.48	-4.42****
(11) I arranged and introduced some operations of the Association to my own company.	134	2.81	81	3.47	-5.05****

\*\*\*\* refers to 0.1% significance; \*\*\* refers to 1% significance; \*\* refers to 5% significance; \* refers to 10% significance.

Source: Same as Chart 1.

the Association “twice a month or more” was “(3) I collaborated with other companies and entered a new line of business,” which showed the same result as for length of membership. The second point was that there was no item whose score was above the average value of 3.0 for the group attending activities of the Association “twice a month or more,” and for which no statistical differences were identified from the group attending activities “less than twice a month.” In other words, statistical differences were effective for all items. These results were different from the case of length of membership, which had two items [ “(2) I could deepen exchanges with other business

managers,” and “(11) I arranged and introduced some operations of the Association to my own company,” ] without statistical differences. The third point was that there were four items [ “(10) My company’s business operations have been streamlined,” “(11) I arranged and introduced some operations of the Association to my own company,” “(1) I reinforced my own company’s management base by re-launching the business,” and “(6) I improved my own company’s financial structure” ] that were the same as the case of length of membership, with scores above the average value of 3.0 for the group attending activities of the Association “twice a month or more” and below the average value for the

group attending activities “less than twice a month,” and with the differences in average value having statistical significance.

As in the case of length of membership, I would first like to comment on what can be implied by the result of the third point, and then comment on the first and second points. What I examined here was any differences in average value for benefits that can be gained from participating in activities of the Association between the group attending activities of the Association “twice a month or more” and the group attending activities “less than twice a month.” The results showed that attending activities of the Association “twice a month or more” exceeded the average value for both groups, while attending “less than twice a month” was below the average value and the differences in average value had statistical significance. Therefore, I could statistically verify that there are many cases where members of the Association are able to “reinforce their own company’s management base by re-launching the business,” “improve their own

company’s financial structure,” “streamline their company’s business operations” and even “arrange and introduce some operations of the Association to their own company” by attending activities of the Association twice a month or more on average. The last two items are characteristics not identified for the group with 10 or more years of membership.

Now I would like to address the first and second points. One of the possible keys to these points is the content regarding the frequency of attending activities. In other words, even though some members have a long period of membership and frequently attend activities of the Association, the content of that participation may vary depending on what kind of meetings they attend. What we should consider here is whether those members have served as a board member of the Association.

Chart 14 below shows differences in the frequency of attending activities of the Association between the group of members who have served as a board member and the group of members who have never served as a board

**Chart 14: Cross-Analysis of Experience of Serving as a Board Member and Frequency of Attending Activities of the Association**

Frequency of attending activities	Have you served as a board member?				Total
	Yes		No		
	Frequency	Ratio	Frequency	Ratio	
Twice a week or more	18	17.6%	0	0.0%	18
Once a week	22	21.6%	2	1.3%	24
Twice to three times a month	28	27.5%	19	12.7%	47
Once a month	19	18.6%	57	38.0%	76
Four to five times every six months	4	3.9%	15	10.0%	19
Twice to three times every six months	4	3.9%	31	20.7%	35
Once every six months	5	4.9%	17	11.3%	22
Once a year	2	2.0%	9	6.0%	11
Total	102	100.0%	150	100.0%	252

Source: Same as Chart 1.

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member. As you can see from this chart, the values of effective percentage turn around just between “two to three times a month” and “once a month.” The results showed that 66.7% (17.6% + 21.6% + 27.5%) of members who responded that they have served as a board member attend activities of the Association at least twice a month or more, while as much as 86.0% (38.0% + 10.0% + 20.7% + 11.3% + 6.0%) of members who responded that they have never served as a board member attend activities of the Association less than twice a month. This clearly shows that the experience of serving as a board member affects the frequency of attending activities of the Association.

### 3. Experience of Serving as a Board Member and Benefits That Can Be Gained from Participating in Activities of the Association

Given the above findings, I would now like to examine the correlation between the experience of serving as a board member and the benefits that can be gained from participating in activities of the Association.

I conducted a t-test (two-sided) in order to determine differences in the average value of benefits that can be gained from participating in activities of the Association between the group of members who have served as a board member and the group of members who have never served as a board member (Chart 15). The following three points were consequently

**Chart 15: Differences in Average Value for Benefits That Can Be Gained from Participating in Activities of the Association Based on the Experience of Serving as a Board Member**

	Have you served as a board member?				t-value
	Yes		No		
	Frequency	Average	Frequency	Average	
(1) I reinforced my own company's management base by re-launching the business.	97	3.23	114	2.79	2.70***
(2) I could deepen exchanges with other business managers.	97	4.32	129	3.78	4.83****
(3) I collaborated with other companies and entered a new line of business.	96	2.73	113	2.23	3.03***
(4) My management principle has become clearer.	94	3.89	122	3.20	5.32****
(5) My company's strengths have become clearer.	95	3.77	122	3.02	6.27****
(6) I improved my own company's financial structure.	95	3.06	119	2.71	2.87***
(7) I learned to make decisions based on a broad source of management information.	97	3.73	122	3.22	4.15****
(8) I could enhance my awareness as a business manager.	95	4.18	129	3.72	3.82****
(9) I could deepen a relationship based on trust with my employees.	95	3.54	124	3.04	4.79****
(10) My company's business operations have been streamlined.	94	3.38	121	2.97	3.42****
(11) I arranged and introduced some operations of the Association to my own company.	94	3.33	121	2.83	3.62****

\*\*\*\* refers to 0.1% significance; \*\*\* refers to 1% significance; \*\* refers to 5% significance; \* refers to 10% significance.

Source: Same as Chart 1.

identified as characteristics when compared with the demonstrative results above regarding length of membership and frequency of attending activities of the Association. The first point was that the only item whose score was below the average value of 3.0 in the list of benefits that can be gained from participating in activities of the Association for the group of members who have served as a board member was “(3) I collaborated with other companies and entered a new line of business,” which showed the same result as length of membership and frequency of attending activities of the Association. The second point was that there was no item whose score was above the average value of 3.0 for the group of members who have served as a board member, and for which no statistical differences were identified from the group of members who have never served as a board member. In other words, statistical differences were effective for all items as in the case of frequency of attending activities of the Association. The third point was that there were four items [“(10) My company’s business operations have been streamlined,” “(11) I arranged and introduced some operations of the Association to my own company,” “(1) I reinforced my own company’s management base by re-launching the business,” and “(6) I improved my own company’s financial structure”] that were the same as the case of length of membership and frequency of attending activities of the Association, with scores above the average value of 3.0 for the group of members who have served as a board member and below the average value of 3.0 for the group of members who have never served as a board member, and with the differences in average value having statistical significance.

#### IV. Associations of Small Business Entrepreneurs as “Voluntary” Organizations for SME Managers

The four following points have been clarified as below.

The first point is what became clear from the correlation between length of membership and frequency of attending activities of the Association. One item that showed different results among the items of benefits that can be gained from participating in activities of the Association was “(2) I could deepen exchanges with other business managers.” This item showed the highest average value among the items of benefits that can be gained from participating in activities of the Association. When I examined the differences in average value between the group with 10 or more years of membership and the group with less than 10 years of membership, the differences had no significance. However, when I examined the differences in average value between the group attending activities of the Association twice a month or more and the group attending less than twice a month, the differences had statistical significance. The latter results showed the same results as revealed in the test between the group of members who have served as a board member and the group of members who have never served as a board member. What we can deduce from these results is that managers who belong to the Association can “deepen exchanges with other business managers” despite the length of membership, but the depth of exchange may clearly vary between the groups of members who attend activities of the Association twice a month or more or who have served as a board member, and the groups of members who attend activities of the Association less than twice a month or who have never

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served as a board member. This implies that a source of trust among managers of small and medium-size enterprises can result from exchanges among managers in a parent organization.

The second point was a common perspective that became clear from each item concerning length of membership, frequency of attending activities of the Association, and the experience of serving as a board member. I examined each of the three pairs of groups for each item (i.e., group with “10 or more years of membership” and group with “less than 10 years of membership; group attending activities of the Association “twice a month or more” and group attending “less than twice a month”; and group of members who “have served as a board member” and group of members who “have never served as a board member”). An examination of these pairs of groups revealed four items [(1) I reinforced my own company’s management base by re-launching the business,” “(6) I improved my own company’s financial structure,” “(10) My company’s business operations have been streamlined,” and “(11) I arranged and introduced some operations of the Association to my own company.”] whose average values for benefits that can be gained from participating in activities of the Association were above the intermediate value of 3.0 in each of the former pairs of groups, below the intermediate value of 3.0 in each of the latter pairs of groups, and with the differences in average value in both groups having statistical significance. (Among the four items above, the first two items had no statistical significance for length of membership. In addition, “(10) My company’s business operations have been streamlined” was the only item whose average value was above the average value of 3.0 for length of membership in two groups.) From these points, it became clear that those

members who have been with the Association for 10 or more years, attend various activities twice a month or more, and have served as a board member tend to have better chances to “reinforce their own company’s management base by re-launching the business” or “improve their own company’s financial structure” compared with members who have been with the Association for less than 10 years, attend various activities less than twice a month, and who have never served as a board member. It also became clear that those members who attend activities twice a month or more, or those who have served as a board member, despite the length of membership, tend to have better chances to “streamline their company’s business operations” and “arrange and introduce some operations of the Association to their own company.” This indicates that proactive participation in exchange organizations for small and medium-size enterprises could improve company management.

The third point was something I have not thus far mentioned in this paper. In each of the paired groups (i.e., group with “10 or more years of membership” and group with “less than 10 years of membership; group attending activities of the Association “twice a month or more” and group attending “less than twice a month”; group of members who “have served as a board member” and group of members who “have never served as a board member”), there were items whose average values for benefits that can be gained from participating in activities of the Association were above the average value of 3.0 in each of the former pairs of groups, as well as for each of the latter pairs of groups, and with the differences in average value for both groups having statistical significance. These were five items: “(4) My management principle has become clearer,” “(5) My company’s strengths

have become clearer,” “(7) I learned to make decisions based on a broad source of management information,” “(8) I could enhance my awareness as a business manager,” and (9) I could deepen a relationship based on trust with my employees.” Since these five items were above the average value of 3.0 on a simple aggregate basis, we can clearly recognize these items as benefits that can be gained by members of the Association from participating in activities of the Association. However, what became even more clear was that those members who have been with the Association for 10 or more years, attend activities twice a month or more, or have served as a board member tend to feel that they have gained more benefits than those who have been with the Association for less than 10 years, attend activities less than twice a month, or have never served as a board member. This clearly indicates that proactive participation in activities of the Association could result in direct benefits for managers of the member companies. Even though this point is not directly relevant to the awareness of problems raised in this paper, I would like to point out this finding revealed through this survey.

As one last point, I would like to discuss the only item (“I collaborated with other companies and entered a new line of business”) whose score was below the average value for benefits that can be gained from participating in activities of the Association in the group of members who have been with the Association for 10 or more years, attend activities of the Association twice a month or more, and have served as a board member. Why was this item below the average value? This result suggests that there are very few small and medium-size enterprises that could manage to enter a new line of business as a result of collaborative participation, such as in an exchange organization for SMEs. Not all

small and medium-size enterprises can achieve concrete results from such collaboration. There are quite a few small and medium-size enterprises that find it difficult to achieve concrete results from collaborative participation. The analysis results described in this paper can be attributed to this very point. Furthermore, we can assume that it would be some time before the concrete results of collaboration will become visible. Therefore, I must say that it is still premature to evaluate the achievements of collaboration among SMEs at this stage.

## V. Small Business Entrepreneurs and Business Plans

It has been a while since the significance for small and medium-size enterprises (hereinafter referred to as “SMEs”) to prepare their own business plans was pointed out. The Small and Medium Enterprise Basic Act was amended for the first time in 36 years in 1999, and its focus was shifted dramatically from “modernization” and “correction of unfairness” to the policies for the foundation of SMEs and entrepreneurship with “foundation of business” and “streamline of conditions for competition” as the central pillars of the amendment. As SMEs started to be recognized as a dynamic source for economic revitalization, the significance of management innovation (second start-up of business) for existing SMEs increased in addition to entrepreneurial start-ups. This is how the preparation of business plans started to be asserted as significant in order to achieve the growth of new businesses created by newly-established venture companies and existing SMEs. The significance in the preparation of business plans has been pointed out by financial institutions and local governments as a means to evaluate the future growth potential of venture

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companies and SMEs. However, in recent years, many venture companies and SMEs have recognized the business significance in creating these business plans, especially to achieve their company’s own development goals, and many are working to prepare their own business plans and to achieve the details of their plans.

These chapters as below are to clarify the status of business plan preparation among SMEs in Japan with a focus on existing SMEs, based on the results of questionnaire surveys on business plans targeting SME managers. As far as I am aware, the amount of studies conducted in Japan on business plans among Japanese SMEs is quite limited. This is why I would like to make this study a starting point for further studies in the future by first grasping the actual conditions of business plan preparation among Japanese SMEs.

## VI. Prior Research on Business Plans

In this chapter, I would like to organize some discussion points on the management of SMEs and business plans, while summarizing some prior research on the management of SMEs and business plan preparation.

First of all, Cook, K. J. pointed out that the preparation of “strategic planning” is essential for small business. According to Cook, K. J., what he calls “strategic planning” here refers to “a document which describes what you (assuming the reader is a company manager) would like to achieve with your company in the future..... or description of a vision.” (The author added the parenthesis and omissions.)<sup>4)</sup> Cook, K. J. argues that SMEs should prepare effective “strategic planning” as follows. “Sloppy planning will only cause poor results. On the other hand, effective planning is productive. This is because we can improve results with effective planning. If

planning is effective, you can improve your chances of achieving objectives. This means that you can reinforce your company’s vision, planning effort and your own management behaviors.”<sup>5)</sup> In addition, Cook, K. J. says “In short, effective planning is.... what improves decision making in business” (omissions by the author) and also claims that the preparation of effective planning will eventually result in a better and more thoughtful decision making process that not only minimizes risk from growth but also achieves the desirable success.<sup>6)</sup>

On this point, Perry, S. C. also discusses the influence of business plan preparation on the failure of small businesses based on a questionnaire survey targeting small businesses in the U.S.<sup>7)</sup> What Perry, S. C. calls “failed” small businesses can be defined as “companies which caused their creditors losses as a result of a bankruptcy and reorganization.”<sup>8)</sup> As a result of the survey, Perry found that many small businesses do not have business plans. However, he points out “relatively speaking, non-failing small businesses had more effective business plans than failed small businesses.”<sup>9)</sup>

Furthermore, Upton, N et al. discuss actual condition of business activities and strategic business plans based on a questionnaire survey targeting fast-growing family firms in the U.S.<sup>10)</sup> In the discussion, Upton, N et al. point out that many fast-growing family firms have their own business plans. Business plans in this context refer to substantial plans which can connect operational plans with actual business results. This point is in line with the aforementioned definition of business plans by Cook, K. J. In addition, Upton, N et al. made it clear from the results of the questionnaire survey that board of director meeting are always or at least sometimes involved during the process of business plan preparation.<sup>11)</sup> Furthermore, the

survey results also indicated clearly that a majority of family firms compare their actual business results with their target or planned business results and share such information with all employees, even though frequency and depth of such information sharing may vary from company to company.<sup>12)</sup> Regarding the necessity of information sharing with employees, Cook, K. J. also points out the following. “The only way to make your strategy work effectively exists in the situation where all members in the organization understand the strategy and are positioned to execute such strategies. You (assuming the reader is a company manager) cannot make your strategy work effectively by yourself. Therefore, first and foremost, it is necessary that the plans prepared by you (same as the above) are approved within the company.” (The author added the parenthesis.)<sup>13)</sup> Cook, K. J. claims that it is necessary to share information on strategic planning with employees as it is required for the actual execution of the strategy.

The above is a simplified introduction of the overview of prior research on the management of SMEs and business plan preparation. The following is a summary of issues to be examined based on the results of some prior research.

#### Issue for Examination 1:

Issue 1 considers whether business plans are prepared or not. How frequently are business plans prepared by SMEs?

#### Issue for Examination 2:

Issue 2 considers the benefits gained from preparing business plans. It is said that the preparation of business plans could “improve results.” Does the creation of business plans really bring such benefits to a company’s business?

#### Issue for Examination 3:

Issue 3 considers the operation of business plans. Are businesses managed according to what is written in the prepared business plans?

#### Issue for Examination 4:

Issue 4 considers the sharing of business plan information with employees. Who prepares the business plans? How is information on the prepared business plans shared with employees?

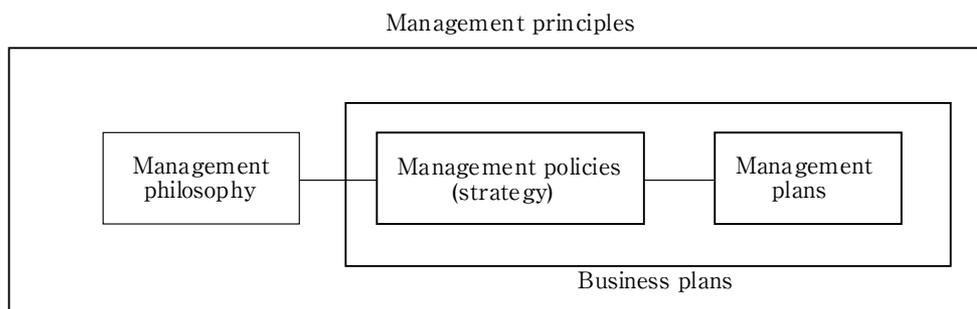
### **Ⅶ. Current State of Business Plan Preparation among SMEs: Implications from the Campaign for the Documentation of Management Principles**

In this chapter, I will look at the current state of business plan preparation in the management of SMEs in Japan using data while touching on the four issues for examination described in the previous chapter.

#### **1. Data**

Data used in this paper is based on a questionnaire survey which was conducted targeting member companies of the Association of Small Business Entrepreneurs in Hyogo Prefecture (hereinafter referred to as the “Hyogo Association”), an organization for SME managers.

At the Associations of Small Business Entrepreneurs (hereinafter referred to as the “Associations”), management philosophies and associated management policies and management plans are collectively referred to as management principles. The Associations are actively involved in the campaign for the documentation of management principles.<sup>14)</sup> What the Associations call management principles are what describe the objectives of companies and what clarify the

**Figure 1 Correlation Between Business Plans and Management Principles**

Source: Prepared by the author

basic ideas behind company management. Management policies describe what the company should look like, the objectives from a medium-term (three to five years) perspective, indicate the paths to reach such goals and present this all as a strategy. Management plans describe specific execution plans for a single fiscal year with a main focus on plans for profitability. In this paper, business plans refer to a combination of management policies and management plans defined by the Associations. (Figure 1)

In the campaign for the documentation of management principles promoted by the Associations, documentation of management philosophies is emphasized as one of the most important points. The basic idea behind this is a perspective of labor and management which puts significance on whether employees are regarded as partners.<sup>15)</sup> The reason why documentation of management philosophies should be highly emphasized is based on the idea that management policies and management plans should be prepared in line with a management philosophy. Therefore, in this paper, I would like to utilize the data on management principles comprising business plans (management policies and management plans) and a management philosophy, and look

at the actual conditions of the preparation of such documents.

## 2. Survey Method

As mentioned earlier, the data used in this paper is based on the questionnaire survey conducted which targeted member companies of the Hyogo Association. This is a special survey (questionnaire) carried out as a part of the survey on economic sentiment of the member companies which has been conducted twice a year since December 1997. The survey was sent by mail and those who took the survey were selected based mainly on fixed-point observation as well as the selection of new members.

This special survey on management principles (management philosophy, management policies and management plans) was carried out three times in December 2000, June 2003 and June 2006. While the survey itself was conducted by the Hyogo Association, the survey items were primarily designed by me (the author).<sup>16)</sup> For descriptive purposes, the surveys conducted in December 2000, June 2003 and June 2006 shall be hereinafter referred to as the Survey 2000, Survey 2003 and Survey 2006 respectively. The response rate and question items for each survey were as follows. (Chart 16)

Chart 16: Overview of the Questionnaire Data

Survey date	Number of employees Above: Average value Bottom: Intermediate value	Response rate	Question
December 2000 (2000 Survey)	20.3 10.0	48.8% 283 companies out of a total of 580 companies	(1) State of preparation, (2) Date of preparation, (3) Prepared by, (4) State of meetings, (5) State of revisions, (6) Utilization method (internal and external)
June 2003 (2003 Survey)	21.0 11.0	40.7% 244 companies out of a total of 600 companies	(1) State of preparation, (2) Date of preparation, (3) State of operation, (4) Benefits on management gained from the preparation
June 2006 (2006 Survey)	21.5 10.0	32.3% 273 companies out of a total of 845 companies	(1) State of preparation, (2) Date of preparation, (3) State of operation, (4) Benefits on management gained from the preparation

### 3. Survey Results

Although some question items were common among the three surveys, there were also some specific question items. Now I would like to take a look at the actual conditions of documentation of management principles while introducing some of the results from the three surveys. Specifically, I would like to focus on each of the following items (i.e. (1) Status of documentation of management principles, (2) Benefits gained from the preparation of management principles, (3) Operation of management principles, (4) Usage of management principles, (5) Announcement meetings for management principles, and (6) Those who prepare management principles).

- (1) Status of documentation of management principles (Based on the 2000 Survey, 2003 Survey and 2006 Survey)

First of all, I would like to take a look at the documentation status of management principles (management philosophy, management policies and management strategy). For this, we asked the respondents if they document their

management principles. We asked about the documentation status of management principles in all of the surveys for 2000, 2003 and 2006. Respondents were asked about the documentation status of management principles in three different ways including: cases where management principles have already been prepared, cases where one of the management principles is currently being prepared (under preparation), and cases where any of the management principles have not been prepared yet. In cases where management principles have already been prepared, we asked the respondents about the documentation status of each management philosophy, management policy and management strategy. Chart 17 summarizes the results of this survey.

According to Chart 17, in the 2000 Survey, about 30 to 35% of SMEs responded that management principles (management philosophy, management policies and management plans) had been prepared at their company. Specifically, about 35% had prepared a management philosophy, 31% a management policy, and 30% a management plan. On the other hand, about 45%

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Chart 17: Current State of Management Principle Preparation

	2000 Survey		2003 Survey		2006 Survey	
	Frequency	%	Frequency	%	Frequency	%
Management philosophy has been prepared.	95	34.9%	120	49.2%	129	47.3%
Management policies have been prepared.	84	30.9%	110	45.1%	114	41.8%
Management plans have been prepared.	80	29.4%	104	42.6%	111	40.7%
One of the above has been currently being prepared.	33	12.1%	15	6.1%	39	14.3%
None of them have been prepared yet.	121	44.5%	50	20.5%	87	31.9%
Total	272	100.0%	244	100.0%	273	100.0%

Source: Based on questionnaire surveys conducted in 2000, 2003 and 2006

of SMEs responded that they have not prepared management principles. In short, the results showed that the number of SMEs which have not prepared their management principles (management philosophy, management policies and management plans) exceeded the number of SMEs with prepared management principles.

However, in the 2003 Survey, about 43 to 49% of SMEs responded that management principles (management philosophy, management policies and management plans) had been prepared at their company. Specifically, about 49% had prepared a management philosophy, 45% a management policy, and 43% a management plan. On the other hand, about 21% of SMEs responded that they have not prepared management principles. According to these results, it became clear that the number of SMEs with prepared management principles exceeded the number of SMEs which have not prepared their management principles, which was contrary to the results in the 2000 Survey.

In the 2006 Survey, about 41 to 47% of SMEs responded that management principles (management philosophy, management policies and management plans) had been prepared at their company. Specifically, about 47% had

prepared a management philosophy, 42% a management policy, and 41% a management plan. On the other hand, about 32% of SMEs responded that they have not prepared management principles. This indicated that there were more SMEs with prepared management principles than SMEs which have not prepared their management principles, as in the 2003 Survey. However, compared with the 2003 Survey, the ratio of SMEs with prepared management principles decreased slightly. Be that as it may, the absolute number of cases where management principles are being prepared is increasing and this confirmed that the number of SMEs with prepared management principles is rising each year.

Based on the above, the more recently the survey was conducted (i.e. 2000 Survey < 2003 Survey < 2006 Survey), the more wide spread the preparation of management principles (management philosophy, management policies and management plans) in the management of SMEs has become.<sup>17)</sup>

(2) Benefits gained from the preparation of management principles

Secondly, I would like to take a look at the

benefits gained from the preparation of management principles. We asked the respondents what kind of benefits they have gained from operating their business with prepared management principles from a management perspective. The questions on the benefits gained from the preparation of management principles were include in the 2003 Survey and 2006 Survey.

To start with, we listed 12 items for the benefits gained from the preparation of management principles in the 2003 Survey. Taking into account prior research in order to determine the items to be included, we focused on the relation of the benefit. Benefits related to companies included clarification on the significance of the companies' own existence, business improvements, enhanced profitability, and the launch of a new businesses. Apart from the benefits related to companies, we also included establishment of a management style by company managers as a benefit related to company managers, as well as the sharing of management principles within the company and presence of spontaneous and creative actions by employees as benefits related to employees. In addition to these internal benefits, we also added external benefits.<sup>18)</sup> These external benefits included improved evaluations by business partners and financial institutions as benefits related to business partners and the acquisition of subsidies and certification by the Act on Supporting Business Innovation of Small and Medium Enterprises (which was further developed and integrated into the Act on Promoting New Business Activities of Small and Medium Enterprises enacted in 2005) as benefits related to local government.<sup>19)</sup>

In the 2006 Survey, the 12 items adopted in the 2003 Survey were aggregated into five categories by affiliation (i.e. benefits related to company managers, benefits related to

companies, benefits related to employees, benefits related to business partners, and benefits related to local government). With regard to the benefits gained from the preparation of management principles, we adopted a scale based on the degree of awareness. On an ascending scale of 1 to 5, we asked respondents to give five points to items to which they “strongly agree” and one point to items to which they “strongly disagree.”<sup>20)</sup> Chart 18 (2003 Survey) and Chart 19 (2006 Survey) list the results of each survey in descending order based on their average value.

As for the benefits gained from the preparation of management principles, Chart 18 (2003 Survey) clearly indicates that items such as “I (company manager) could establish my own management style.” (average value of 4.15) and “Significance of our company's own existence (business concept, etc.) has become clearer.” (average value of 4.02) marked relatively high scores. On the contrary, items such as “It helped us to get subsidies provided by the local government.” (average value of 2.62) and “It helped us to be certified by the Act on Supporting Business Innovation of Small and Medium Enterprises.” (average value of 2.55) scored below the average value of 3.0, implying that most SMEs do not find these items as beneficial.

Items listed in Chart 19 (2006 Survey) summarize items included in the 2003 Survey as shown in Chart 18. Specifically, items were summarized into five categories from the perspective of the recipient of benefits gained from the preparation of management principles. The five categories were “benefits related to company managers (e.g. establishment of a management style by company managers, etc.),” “benefits related to companies (e.g. clarification of the significance of a companies' own existence, business improvements, etc.),”

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**Chart 18: Benefits Gained from Management Principle Preparation**

	Average value	Frequency
I (company manager) could establish my own management style.	4.15	122
Significance of our company’s own existence (business concept, etc.) has become clearer.	4.02	120
Our company’s management figures (sales, ordinary income, cost reduction, etc.) have become clearer.	3.53	120
Shared use of management principles have been promoted within our company.	3.42	119
Management reforms have been promoted as a result of the PDCA (plan-do-check-act) cycle.	3.41	118
There have been evaluation improvements of our company by financial institutions. (There have been benefits from a financing perspective, etc.)	3.36	113
Our company has become more profitable.	3.31	119
Our employees have started acting more spontaneous and become more creative, which is in line with our management principles.	3.31	119
There have been evaluation improvements of our company by our business partners. (Support for our management style, increase in transaction volume, etc.)	3.27	113
We can manage to launch a new business (or managed to get a new business on its feet).	3.00	105
It helped us to get subsidies provided by the local government.	2.62	102
It helped us to be certified by the Act on Supporting Business Innovation of Small and Medium Enterprises.	2.55	98

Source: Based on a questionnaire survey conducted in 2003

**Chart 19: Benefits Gained from Management Principle Preparation (Aggregated version)**

	Average value	Frequency
Benefits related to company managers (e.g. establishment of a management style by company managers)	4.41	120
Benefits related to companies (e.g. clarification of the significance of a companies’ own existence)	4.27	119
Benefits related to employees (e.g. information sharing)	3.95	122
Benefits related to business partners (e.g. improvements in evaluation by business partners and financial institutions)	3.57	118
Benefits related to the local government (e.g. contribution in being certified for subsidies and by the Act on Supporting Business Innovation of Small and Medium Enterprises)	3.04	113

Source: Based on a questionnaire survey conducted in 2006

“benefits related to employees (e.g. information sharing, improved motivation, etc.),” “benefits related to business partners (e.g. improved evaluations by business partners and financial

institutions, etc.),” and “benefits related to local government (e.g. contribution in being certified for subsidies and by the Act on Supporting Business Innovation of Small and Medium

Enterprises, etc.).” Chart 4 shows that the benefits related to company managers and the benefits related to companies scored higher while the benefits related to local government scored lowest, which was in line with the results for the 2003 Survey.

### (3) Operation of management principles (2003 Survey and 2006 Survey)

As a third point, let’s take a look at the operation of management principles. The respondents were asked to what degree the content of their prepared management principles was operated in the actual management of their business. The questions on the operation of management principles were included in the 2003 Survey and 2006 Survey, both of which adopted a scale based on the degree of awareness. On an ascending scale of 1 to 5, we asked respondents to give five points to items which they think are “consistent with the content” and one point to items which they think are “basically different from the content.”<sup>21)</sup> Chart 20 summarizes the results of this survey.

According to Chart 20, among the elements of management principles (management philosophy, management policies and management plans), management philosophy and management policies scored 3.58 and 3.49 respectively in the 2003 Survey, indicating that these two scores were relatively higher compared to management plans which scored 3.15. These results indicate

that at SMEs, management philosophy and management policies are operated more in line with the content compared with management plans. This is the first point I would like to make.

Next, let’s compare the results of the 2003 Survey and the 2006 Survey. Firstly, the score for management philosophy was 3.58 in the 2003 Survey and 3.55 in the 2006 Survey. This indicates that the score was essentially unchanged even though there was a slight decrease in the number. The score for management policies was 3.49 in the 2003 Survey and 3.52 in the 2006 Survey, which also indicated that the score was essentially unchanged with a slight increase in the number. However, when looking at management plans, the score was 3.15 in the 2003 Survey and 3.34 in the 2006 Survey. This shows that the rate of increase in the score for management plans was relatively higher compared with those for management philosophy and management policies. From these results, we can assume that many SMEs do not just regard the numbers included in their management plans as “a pie in the sky” but they have become more focused on achieving the results based on these target numbers.

Lastly, I would like to point out the fact that scores in each item were low as a whole both in the 2003 and 2006 Survey. Actually, the highest score was 3.58 for the degree of operation for management philosophy in the 2003 Survey and there was no item which scored above 4.0. If a

Chart 20: Operation of Management Principles

	Survey 2003		Survey 2006	
	Average value	Frequency	Average value	Frequency
Management philosophy	3.58	117	3.55	128
Management policies (strategy)	3.49	107	3.52	114
Management plans	3.15	105	3.34	111

Source: Based on questionnaire surveys conducted in 2003 and 2006

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comment was to be made without the fear of misunderstanding, it would not be an exaggeration to say that the survey results indicate that management principles (management philosophy, management policies and management plans) on the whole have turned out to be “a pie in the sky” for many SMEs despite their effort of preparing them as many SMEs failed to operate in line with the content of management principles.

(4) Utilization of management principles  
(Survey 2000)

As a fourth point, let’s take a look at the utilization of management principles. This is a question about the method in which prepared management principles are utilized by companies. Utilization methods include distribution, carrying, reviewing, utilization, etc. We divided these utilization methods roughly into two categories (internal and external) depending on the location of utilization. We listed five items (i.e. “Distributed to all employees,” “Review (the content) regularly,” “Review daily,” “Take them to meetings,” and “Take them to business operations”) as internal utilization methods. In addition, we listed two items (i.e. “Distributed to main financing banks” and “Utilize for the implementation of business plans for subsidies

and financing”) as external utilization methods, taking into account the destination of distribution. Chart 21 summarizes the results of this survey.

Chart 21 shows that “Distributed to all employees” scored the highest (54.2%) among all utilization methods, and this was the only item with a score exceeding 50%. Within the same category of distribution, about 30% of the respondents selected “Distributed to main financing banks” as a utilization method. As for the reviewing category, about 30% of the respondents selected “Review regularly” as a utilization method, indicating that not many SMEs actually review the content of management principles even after the distribution. This is apparent from the fact that as few as around 10% of the respondents selected “Review daily.”

(5) Meetings for management principles  
(Survey 2000)

As a fifth point, let’s take a look at meetings for management principles. We asked the respondents if the prepared management principles are announced within the company and who the participants are for such meetings on management principles.

First, I would like to consider Chart 22 which summarizes the part of the survey which asked

Chart 21: Utilization Method of Management Principles (n = 118)

	Frequency	%
Distributed to all employees.	64	54.2
Reviewed regularly.	38	32.2
Distributed to main financing banks.	35	29.7
Taken them to meetings.	25	21.2
Utilized for the implementation of business plans for subsidies and financing.	21	17.8
Reviewed daily.	13	11.0
Other	7	5.9
Taken them to business operations.	5	4.2

Source: Based on a questionnaire survey conducted in 2000

**Chart 22: Whether Meetings on Management Principles Are Conducted or Not (n = 116)**

	Frequency	%
Meetings are conducted.	90	77.6
Meetings are not conducted.	26	22.4

Source: Based on a questionnaire survey conducted in 2000

**Chart 23: Participants in Meetings for Management Principles (n = 90)**

	Frequency	%
Participation by all employees.	71	78.9
Participation by senior executives only.	19	21.1
Main financing banks are invited.	6	6.7
Business partners are invited.	5	5.6

Source: Based on a questionnaire survey conducted in 2000

the respondents whether meetings for management principles are conducted or not. Chart 22 shows that meetings on management principles are conducted at around 78% of SMEs.

Next, we asked the respondents whose company conducts meetings on management principles who participated in such meetings. Based on our assumption, we listed senior executives and all employees as possible internal participants for meetings and business partners and financing banks as possible external participants (i.e. guests invited by companies). Chart 23 summarizes the results of the survey on meeting participants.

Chart 23 shows that meetings on management principles are “Participated by all employees” at around 79% of SMEs, clearly indicating that this answer was selected by an overwhelming majority of the respondents.

- (6) Those who prepare management principles (2000 Survey)

As a final point, let’s take a look at those who prepare management principles. We asked the

respondents who prepare management principles at their company. We assumed that management principles could be prepared “solely by the president,” “by the president and senior executives (e.g. directors, department heads, etc.),” “by all employees” or “by people other than those listed above (i.e. others).” Chart 24 summarized the results of the survey on who prepares management principles.

Chart 24 shows that management principles are “prepared by the president and senior executives” at about 48% of the companies and are “solely prepared by president” at about 43% of the companies, clearly indicating that these two answers scored much higher than other items.

#### 4. Discussion

I would like to further examine the four issues mentioned in Chapter VI specifically from the perspective of the management of SMEs and the preparation of business plans based on the results of the survey on management principles which were discussed in detail above.

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Chart 24: Those Who Prepare Management Principles (n = 118)

	Frequency	%
Prepared by the president and senior executives.	56	47.5
Prepared solely by the president.	51	43.2
Prepared by all employees.	10	8.5
Others	1	0.8

Source: Based on a questionnaire survey conducted in 2000

#### Issue for Examination 1:

Issue 1 considers whether business plans are prepared or not. How frequently are business plans prepared by SMEs?

It became clear (from Chart 17) that the preparation of management principles (management philosophy, management policies and management plans) has become wide spread in the management of SMEs in Japan. Therefore, we can conclude that the preparation of business plans has become more and more common among SMEs in Japan each year. This fact should be recognized. However, it is important to note that among the elements of management principles, management philosophy scored relatively higher than management policies and management plans which are presented as business plans. This indicates that at many Japanese SMEs, management philosophy has been documented but management policies and management plans presented as business plans have not been documented yet. This point is not consistent with prior research. Therefore, how should we explain the fact that business plans have not been prepared at many of the Japanese SMEs?

#### Issue for Examination 2:

Issue 2 considers the benefits gained from preparing business plans. It is said that the preparation of business plans could “improve results.” Does the creation of

business plans really bring such benefits to a company’s business?

With regard to the benefits of preparing management principles (management philosophy, management policies and management plans) in the management of SMEs in Japan, benefits related to companies (e.g. clarification of the significance of the companies’ own existence, clarification of management figures, etc.) scored relatively high. However, we found that benefits related to company managers (e.g. establishment of a management style by company managers, etc.) scored even higher (according to Chart 18 and 19). In short, as far as Japanese SMEs are concerned, we can say that business plans are beneficial not only for companies from the aspect of enhancing the significance of companies’ own existence, but also for company managers themselves. This point is not consistent with prior research. Therefore, how should we explain the fact that many Japanese SMEs regard the benefits of preparing business plans to benefit only company managers themselves?

#### Issue for Examination 3:

Issue 3 considers the operation of business plans. Are businesses managed according to what is written in the prepared business plans?

With regard to the operation status of management

principles (management philosophy, management policies and management plans) prepared by Japanese SMEs, there was a relatively large increase in the score for management plans during the past years while the scores for management philosophy and management policies remained mostly unchanged (according to Chart 20). From this, we can say that many Japanese SMEs have been making more and more of an effort to utilize figures in their prepared business plans from the aspect of management plans during the past years, and have been applying and reflecting such figures in their actual business management. This fact should be recognized. However, as I pointed out earlier, when it comes to whether business plans are operated in accordance with the actual business management, it is not necessarily the case for many Japanese SMEs. From the fact that the degree of operation showed low figures as a whole (i.e. in management philosophy, management policies and management plans), it became clear that in reality, business plans are not operated in accordance with the actual management of business. This point is not consistent with the prior research. Therefore, how should we explain the fact that in most cases business plans are not operated in accordance with the management of business at many Japanese SMEs?

#### Issue for Examination 4:

Issue 4 considers the sharing of business plan information with employees. Who prepares the business plans? How is information on the prepared business plans shared with employees?

Management principles are prepared solely by the president or by the president and senior executives (director, etc.) at many Japanese SMEs (according to Chart 24). Management principles prepared solely by the president or by

the president and senior executives are distributed to all employees (according to Chart 21). While some companies just distribute copies of management principles, there are many cases where companies share the information on management principles with their employees by holding meetings on management principles (according to Chart 22) which are all employees participate in (according to Chart 23). This means that at many Japanese SMEs, business plans are prepared by the president and senior executives (i.e. company managers) and the information content of business plans is shared with employees through the formation of meetings. This point is consistent with the content of the prior research.

As described above, given the aforementioned issues for examination, I presented three discussion points with regard to the four issues excluding the last one. As a recap, the three points are: (1) how should we explain the fact that business plans have not been prepared at many of Japanese SMEs? (2) how should we explain the fact that many Japanese SMEs regard the benefits of business plan preparation as benefits for company managers themselves? and (3) how should we explain the fact that in most cases business plans are not operated in accordance with the management of business at many Japanese SMEs? These are issues which we should further examine in the future.

One of the possible directions for further analysis regarding these issues for examination which I can think of currently is an analysis on the correlation between business plan preparation and company attributes such as firm size, firm or business age, performance, and other attributes. For example, among the preceding studies described in Chapter VI, Perry, S. C. says, “It is a fact that business plans

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are not prepared at small businesses such as companies with five employees or less.” He also points out saying, “Indeed, values and effectiveness of business plan preparation is quite limited for such small businesses.”<sup>22)</sup> Upton, N., Teal, E. J. and Felan, J. T. also point out that business plans are not prepared at ordinary small-scale family firms apart from those which are growing rapidly.<sup>23)</sup> As you can see from this, we can infer that there is some kind of relationship between firm size and business plan preparation. On this point, Orser, B. J. et al. also indicated that there are differences in the condition of financial performance and business plan preparation depending on firm size in their discussion on company performance, firm size and managerial problem-solving in Canada.<sup>24)</sup> Perhaps, the results of analysis discussed in this paper could have been affected by the fact that many small-scale private companies and family firms were included in the sample. Therefore, it is necessary to consider the classification of firm size among SMEs in the future in order to enhance the quality of data analysis. This is an issue which should be examined in the future.

### **VIII. Associations of Small Business Entrepreneurs and Their Campaign for the Documentation of Management Principles**

As the data used in these chapters above indicates, business plans are prepared by company managers at SMEs (i.e. solely by the president or by the president and senior executives (directors, etc.)). In many cases, employees are not involved in the preparation of business plans. However, it is questionable if this is the best way to prepare business plans. So before concluding, I would like to provide my

own view on the preparation of management principles with the hope to further incentivize the campaign for documentation of business principles by the Association.

The origin of the campaign for documentation of management principles goes back to the embodiment of the perspective of labor and management in 1975, which was a campaign that emphasized the importance of regarding employees as partners in order to guarantee the responsibilities of the management. Therefore, at the Association, employees are described as partners in the management philosophy which is deemed most important, and the managers of SMEs are expected to manage their company with the goal of achieving such a philosophy. The original purpose of a management philosophy is to clarify for company managers the real purpose of their business management and this content is not so easily understood by employees. Therefore, it is insufficient for company managers to just deliver their message on what kind of company they would like to create. It is necessary for them to think about not only their own welfare but also the welfare of the employees. They need to envision their company’s direction together with their employees and reflect this in business plans which comprise the company’s management policies and management plans. I think that this will help create an agreement between company managers and employees and realize a management philosophy that regards employees as partners. Of course, what I just described is the responsibility of company managers but I think it is also necessary for employees to have a sense of ownership and play their own role by acting spontaneously and proactively while learning and practicing together with company managers.<sup>25)</sup>

When preparing a management philosophy and business plan (management principles), the

first thing to do is describe in writing what company managers would like to realize and a course of direction to aim for. Then, it is important to share the management philosophy and business plans prepared by company managers with employees, make adjustments and match each other's ideals in order to create an agreement that takes into consideration what employees would like to realize and the direction to aim for. It seems necessary to establish a series of processes like these first in order to achieve the steady development of companies. It is important for SME managers to nail down the ultimate idea on what kind of management environment they would like to create for their companies, by applying a series of processes like these not only between company managers and employees but also to customers and consumers who are stakeholders surrounding the company management, other companies in the industry, people in the community in which the company is located, the local economy and society and events in the global environment. I believe that companies can establish their social significance by pursuing this.<sup>26)</sup> It would not be an exaggeration to say that this is exactly a part of the campaign to establish SME charter which aims for an establishment of social significance of SMEs.<sup>27)</sup> If a comment was to be made without the fear of misunderstanding, the campaign to establish a SME charter could be positioned beyond the pursuit and deepening of the campaign for documentation of management principles by SME managers.

\* This paper is based on a teaching material that I used in the Seminar on Small and Medium Enterprise Development Policies, in March 2010. This Paper was translated into English by JICA (Japan International Cooperation Agency) and edited by me later.

- 1) The results of the survey on economic sentiment are released to the public twice a year as the “NT Report” issued by the Hyogo Association. An overview of data used in this paper has been summarized in the “NT Report” (No. 19) under the section entitled “Overview of Economic Sentiment by Members – Based on the Contents of a Survey” by Prof. Kunihiko Futaba, professor emeritus at Ritsumeikan University (and also president of Kyoto Sosei University at the time of writing).
- 2) Even though the question “(5) What you hope for activities of the Association?” was also included in the survey, it was excluded from the scope of analysis for this paper, since it was an open-ended question.
- 3) There are many members with relatively short periods of membership because a number of new companies that recently joined the Hyogo Association were included in the scope of the questionnaire survey.
- 4) Cook, K. J. (1994), translated document, p.13.
- 5) Cook, K. J. (1994), translated document, p. 15, 17
- 6) Cook, K. J. (1994), translated document, p. 17. In addition, Cook, K. J. states as follows. “We should make our decisions based on the best source of information available. We should develop the basis of information which reinforces our decision making abilities through strategic planning. Then, we should deepen our understanding of the current business itself as well as what is happening around the business. As a result, we can make better and more thoughtful decisions.” (Cook, K. J. (1994), translated document, p. 17)
- 7) By Perry, S.C. (2001)
- 8) Perry, S.C. (2001) p.205.
- 9) However, Perry, S. C. states “While there was a statistical significance between business plans and failures of companies, there is little rationale to explain such correlation.” According to Perry, S. C., this is because the smaller businesses are, the less the chances are for businesses to prepare a business

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- plan. (Perry, S. C. (2001) p.205)
- 10) By Upton, N., Teal, E. J. and Felan, J. T. (2001)
  - 11) Upton, N., Teal, E. J. and Felan, J. T. (2001) p.65.  
On this point, refer to Rue, L. W. and N. A. Ibrahim (1995) which discusses the correlation between the involvement of directors of family firms in the board of director meetings and the business results of such firms at the same time.
  - 12) Upton, N., Teal, E. J. and Felan, J. T. (2001) p.66.
  - 13) Cook, K. J. (1994), translated document, pp.111–112.
  - 14) For the historical background on this point, refer to Tayama, K. (1995).
  - 15) By Tayama, K. (1995) and Akaishi, Y. (2003)
  - 16) The survey was conducted by the Management Environment Improvement Committee, a specialized committee of the Hyogo Association. In addition to the author, the company managers who are the members of the committee, Prof. Kunihiro Futaba (professor emeritus at Ritsumeikan University) and Prof. Takayuki Satake (professor at University of Hyogo) have been involved in the design of the survey. (As of October 2007)
  - 17) The date of the survey can be given as a piece of data which shows clearly that the campaign by the Association has become more wide spread.
  - 18) For example, according to a text on venture business theory, there are two aspects which are listed as significant to business plan preparation, including the aspect of management principles for conducting businesses as a company and the aspect of securing business cooperators. What is called the aspect of securing business cooperators here means the acquisition of external funding and business partners among others. External benefits fall into the category of the aspect of securing business cooperators. Refer to Bunno, T. (2007) pp.233–236 for more on this point.
  - 19) It is necessary to receive approval on the Business Innovation Plan in order to be eligible for support provided by the Act on Promoting New Business Activities of Small and Medium Enterprises. The Business Innovation Plan refers to a business plan. Support includes subsidies, finance at low-interest by government-affiliated financial institutions, exception from credit insurance, various tax benefits, etc. However, approval of the Business Innovation Plan does not necessarily mean that support will be guaranteed. On this point, refer to the Information on Support for Business Innovation available on the website of the Small and Medium Enterprise Agency. ([http://www.chusho.meti.go.jp/faq/faq/faq05\\_kakushin.htm#q1](http://www.chusho.meti.go.jp/faq/faq/faq05_kakushin.htm#q1)) (Referred in October 2007)
- In addition, certification by the Act on Supporting Business Innovation of Small and Medium Enterprises is included in the category of “Benefits related to local government” because departments and agencies in charge of commerce and industry in each prefecture (i.e. local government) are designated as a preferred contact for applications for the Business Innovation Plan by the Small and Medium Enterprise Agency. On this point, also refer to the information on the website of the Small and Medium Enterprise Agency.
- 20) Specifically, we asked respondents to give five points to items to which they “strongly agree,” four points to items to which they “agree to a certain extent,” three points to items to which they “do not agree or disagree (no opinion),” two points to items to which they “do not agree much” and one point to items to which they “strongly disagree.”
  - 21) Specifically, we asked respondents to give five points to items which they think are “consistent with the content,” four points to items which they think are “almost consistent with the content,” three points to items which they think are “not consistent or inconsistent (no opinion),” two points to items which they think are “not really consistent” and one point to items which they think are “basically different from the content.”
  - 22) Perry, S. C. (2001) p.205.

- 23) Upton, N., Teal, E. J. and Felan, J. T. (2001) p.67.
- 24) By Orser, B. J., S. Hogarth-Scott and A. L. Riding (2000)
- 25) Akaishi, Y. (2003) p.25.
- 26) On this point, refer to Akaishi, Y. (2007). According to Yoshihiro Akaishi, Former Chairman of the Associations of Small Business Entrepreneurs, the SME Charter is “what positions stability and prosperity of SMEs and self-employed businesses as the most significant policy for the nation and clarifies the directions and issues related to the realization of such goals, and what provides a basis of laws to promote sustainable stability and prosperity of SMEs and self-employed businesses in reality.” He also points out that its philosophy is “the realization of happiness for an overwhelming majority of the citizens” and to aim for “stability and prosperity of SMEs and self-employed businesses” as the most prominent force. (Akaishi, Y. (2007) p.28.)
- 27) For the campaign to establish a SME charter, refer to Obayashi, H. (2005 and 2006).

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