The Status of Planning in Small Businesses

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INTRODUCTION

Among organizational scholars, interest in the planning process began in earnest in the late 1960s. While a large body of this literature has concentrated on large firms, in recent years a growing amount of research attention has been devoted to small businesses. Indeed, since the 1980s there has been general agreement that a major weakness of many studies is their "global" nature, i.e., treating all firms alike, despite the presence of meaningful differences among them based on their size (see, e.g., Cavusgil 1980; Yaprak 1985). Small firms play an increasingly crucial role in the U.S. economy. They employ more than one-half of the U.S. private sector work force, are responsible for about one-half of the GDP, generate more than one-half of all sales in the U.S., and create 60 to 80 percent of net new jobs annually. Furthermore, they produce 13 to 14 times more patents per employee than large patenting firms, employ 39 percent of high tech workers, and make up 97 percent of all exporters (Schiffer 1997; Adams-Smith 1996; U.S. Small Business Administration, 2003).

There have been four streams of research and writing about these firms. The first attempts to determine whether small businesses focus on operational, as opposed to strategic, planning. Unfortunately, mixed findings have resulted from this research. A number of studies have shown that small firms tend to place great emphasis on operational planning (Shrader, Mulford and Blackburn, 1989; Nylen 1985). This is supported by Carson and Cromie (1990) who found that planning, when conducted by small companies, is limited in its scope and activities and therefore tends to be operational. Indeed, Scarborough & Zimmerer (1987) have argued that small firms should not attempt to use techniques found in larger businesses and that the usage of these techniques could be one of the reasons behind the failure of many small businesses. On the other hand, Moyer (1982) has reported that businesses, independently from their size, are capable of executing the necessary functions of strategic planning.

In a separate line of research the emphasis has been on the relationship between planning and performance. Numerous articles in academic publications as well as practitioner-oriented journals have emphasized the importance of planning for small businesses. They contend that good planning is a key to the firm's success (Aram and Cowen 1990; Jones 1982; Frishkoff 1994; Barton and Hounsell 1994) and is a major contributor to profitability (Branch 1991; Brokaw 1992; Hillidge 1990; Knight 1993; Schwenk and Shrader 1993; Kargar and Parnell 1996; Ryans 1997). For example, Bracker and Pearson (1986) identified different levels of performance associated with different levels of planning. In parallel with those findings, the results of a meta-analysis conducted by Schwenk and Shrader (1993) identified the presence of moderating variables on the effect of strategic planning on performance. Another study (Schuman, Sussman, and Shaw 1985)

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found that only 49.9 percent of small firms prepare a formal business plan. Of those that do, 92 percent report that their company has benefitted from it. This is consistent with the results of a survey conducted by Baker, Lon, and Davis (1993) which revealed that 94 percent of companies that performed strategic planning reported improved performance. Also, a study by Rue and Ibrahim (1998) found a strong positive correlation between the degree of sophistication of the planning process and growth rate in sales. However, the degree of sophistication was not related to return-on-investment. Finally, a recent study by Masurel and Smit (2000) reported that planning firms are more profitable than the non-planning firms. Although this study found that planning is associated with growth and profitability, the direction of causality was unclear.

The third area of research addresses the differences between formalized and non-formalized plans and their impact on the performance of small businesses. Empirical results are currently inconclusive. According to some, businesses with structured planning procedures tend to outperform those with non-structured planning procedures, and formal planning results in a wider variety of strategic decision making (Bracker, Keats and Pearson 1988). Others have found that, compared to those with non-formalized plans, firms with structured planning processes are more thorough and detailed, and their performance - as measured by growth of sales - is significantly higher (Lyles et al. 1993). In another study, Lyles et al. (1995) reported no significant relationship between formal planning and return on equity or return on assets. Still others have found no differences between formalized and non-formalized plans in terms of their impact on performance; both types lead to improved performance (Ackelsberg and Arlow 1985). Finally, a number of researchers report that the planning process should be far more informal in small firms than it is in large companies (Thomas, 1989; Shrader, Mulford, and Blackburn, 1989). Indeed, some studies have even found that too much formalization of the strategic planning process may result in reduced performance (Robinson and Pearce 1983; Ackelsberg and Arlow 1985) because it detracts from the very flexibility that is a benefit of small size. A recent study (Rue and Ibrahim 1998) suggests that these inconsistencies may be an indication that performance depends more on the content of the plan than the formality of the planning process.

Finally, in what may be an emerging research stream, some attention has been devoted to the planning tools and techniques used by small businesses. In their study of the planning practices of these firms, Rue and Ibrahim (1996) reported the results of a survey of 128 businesses. They found that 59 percent of these companies had prepared written plans and that 96 percent of these plans included one or more quantified objectives. The two most frequently cited objectives were sales and earnings; they were used by 84 percent and 71 percent of these firms, respectively. The study also examined the various planning tools used by these companies. They included the analysis of factors outside the operating environment that are used as inputs to the written plans, the development of plans and budgets for further growth and expansion of the business, and the use of various pro-forma financial statements. Although this study produced very interesting insights into the planning practices of small companies, it focused on family-owned businesses - typically a subset of small firms.

PURPOSES OF THE STUDY

Despite these research efforts and the growing importance of small companies in the United States' economy, there is surprisingly little empirical work that has examined the techniques, tools, and approaches to planning that are actually being used by these businesses. The present study is designed to partially fill this gap in the literature by reporting the results of a survey of small businesses in the United States. Specifically, it seeks to determine (1) whether or not these firms develop any written long-range plans, (2) the external factors that serve as inputs to the long-range plans, (3) the types of objectives being used by these firms, (4) for those firms who plan for growth and expansion, how they intend to achieve such goals, (5) the types of financial planning undertaken by these companies, (6) whether outside consultants are used to assist in the long-range planning process, (7) the extent to which mathematical or computer models are utilized, and (8) how frequently overall performance is periodically reviewed. The intent is to develop a profile for small firms with respect to their strategic planning processes.

METHODOLOGY

Sample

Data were collected as part of a larger study of small business. The sampling frame consisted of firms listed in the *North Carolina Manufacturers' Directory*, the *Georgia Manufacturing Directory*, and *the South Carolina Industrial Directory*. Only non-affiliated, autonomous firms were included in the sampling procedure. Consistent with previous writing on the subject, the sample was restricted to a particular region since firms within the same region execute their activities under similar influence from environmental conditions and complexity (Robinson and Pearce 1988; Wolff and Pett 2000).

A total of 2100 small firms were selected. Data collection was conducted via a mail questionnaire of the owners or top executives of these firms. Prior to mailing the questionnaire, telephone calls were made to ascertain that these companies were still in business,

to verify the name and title of the key top executive, and to notify them that they will be receiving a questionnaire within a few days and apprize them of the purpose and importance of the survey. Although there is no universally accepted criterion for delineating small firms (Reid 1982), the number of employees (500 employees or fewer) was selected in this research as the key indicator of firm size following previous studies in the literature (see, e.g., Moini 1995; Seringhaus 1993; Miesenboch 1988; Wolff and Pett 2000).

Each respondent was sent a copy of the research instrument accompanied with a letter explaining the project and assuring respondents of the confidentiality of their answers. A first mailing and one telephone follow-up urging participants to complete and return the questionnaire generated 663 completed and usable responses. Since fifty-six responses were unusable, this resulted in a net overall response rate of 32.4 percent.

Measures

Respondents were asked to indicate their present position with the company (e.g., CEO, President, Chair of the Board), in what year the company was founded, the number of full-time employees, the type of ownership of the business, and who founded the company. In addition, they were requested to identify their industry and to indicate whether their company prepares a written long-range plan and, if so, the time period covered in these plans.

Following the convention used in previous research (Rue and Ibrahim 1996), those with written plans were asked whether their plan specifically attempts to identify and analyze any of the following external factors: population/demographic trends, national political developments, international political developments, personal family incomes, social/cultural trends, non-product technological breakthroughs, labor-management relations, national economic trends, and international economic trends. They were then asked if their plan includes quantified objectives for any of the following areas: sales, earnings, return on investment, capital growth, market share, sales/earnings ratio, and international expansion. Those who plan for growth and expansion were asked to what extent these plans take the following into account: hiring and training of key management personnel, plant expansion, new product development succession plans, corporate acquisitions, equipment acquisition, research and development, advertising, and plans for entering or expanding international markets.

Additional items requested information on the types of pro forma statements which are used, whether outside consultants are retained to assist in formulating long-range plans, and whether computers or mathematical models are employed in the planning process. Finally, they were asked how frequently they review their overall performance.

RESULTS

Among the 663 respondents, 466 hold the title of President, 243 are CEO's, and 357 chair their respective boards of directors. Seventy-six percent of the companies in the sample were private companies, 60.2 percent were founded within the last 30 years, and 39 percent were founded by the respondents or their fathers. The median number of employees was 24. Approximately one-half of the responding firms were involved in exporting activities.

WRITTEN PLANS

The majority of the 663 respondents (80.5%) stated that they do prepare some type of written long-range plan. Table 1 presents the time period covered in these plans. Eight-one companies (15.3%) indicated that their plan covers up to one year, 81 (15.3%) stated that their plan covers two years, 116 (21.9%) reported that their plan covers three years, 75 (14.2%) had plans that covered four years, 133 (25.1%) stated that their plan covers five years, and 43 (8.1%) indicated that their plan covers over five years into the future. Five companies did not respond to this question.

TABLE 1
Time Period Covered in Long-Range Plans

Time Period	Number of Firms	Percentage
One year	81	15.3
Two years	81	15.3
Three years	116	21.9
Four years	75	14.2
Five years	133	25.1
Over 5 years	43	8.1

It is interesting to note that among those firms that develop some type of written plan, approximately 70 percent prepare plans extending three or more years into the future. Thus much of the planning that is being undertaken appears to be long-range as opposed to operational.

PLANNING TECHNIQUES

Consistent with the Rue and Ibrahim (1996) study, this survey specifically sought information concerning how the respondents approached the following general areas.

Premises

Because of the potential impact of external forces on the future of a company, it is essential that certain of these factors be addressed in the long-range plan. Premising refers to the consideration of factors outside of the immediate operating environment of the firm. This would generally include those factors which are beyond the control of the company.

As shown in Table 2, 130 firms (24.6%) do not attempt to identify any premise as a part of their plan. The most frequently used premises are international

TABLE 2
Premises Contained in Written Plans

Premise	Number of Firms	Percentage
Population/demographic trends	173	32.7
National political developments	171	32.3
International political developments	307	58.0
Personal family incomes	96	18.1
Social/cultural trends	91	17.2
Non-product technological breakthroughs	38	7.2
Labor-management relations	119	22.5
National economic trends	242	45.7
International economic trends	318	60.1
No premises identified	130	24.6

economic and political developments. This is not surprising since a large number of these firms are involved in international operations. National economic trends are examined by almost 46 percent of the firms in the sample. This is probably due to the availability of related information. Also, managers can easily envision a relationship between national economic trends and their business. Population/demographic trends, national political developments, and labor/management relations are next. They are followed by personal family incomes and social/cultural trends. Finally, non-product technological breakthroughs are addressed by the fewest number of firms.

Objectives

Planning can only be a useful managerial function if objectives are properly chosen. Without concrete objectives, the entire planning activity can easily turn into a futile exercise. Objectives provide benchmarks for evaluating progress (Richards 1986). They represent a managerial commitment to achieving certain results. Companies whose managers set objectives typically outperform those who do not (Thompson and Strickland 2003). Most firms today are striving to attain multiple objectives as opposed to a single one. When choosing multiple objectives, the strategist must be careful to ensure that the different objectives are compatible. Managers must set objectives so that they are specific and practical. Whenever possible, quantified objectives are desirable. Most managers believe that objectives should challenge the company but that they should be attainable.

As shown in Table 3, 85 percent of the respondents who attest to having a written plan establish some kind of quantified objectives. This finding is inconsistent with El-Namacki's (1990) study in which he reports that small businesses are characterized by an overall lack of strategic management, including a failure to develop a system of performance measurement. He found that "in nearly all cases, the practice of strategic planning by small firm owners and managers was found to be scanty and perfunctory" (1990:84). Among those who had developed quantified objectives, sales and earnings were assigned the highest priority, probably because these factors are foremost in the minds of most small business managers. Next was international expansion probably because many of the firms in the sample are involved in international trade. Return on investment, market share, capital growth, and sales/earnings ratio were also used by at least 30 percent of these companies. Of the 534 firms which reported setting objectives, all but 31 had more than one measure. This is consistent with previous research on larger firms in several major industries which found that most businesses pursue multiple quantitative objectives (Rue 1974; Shetty 1979; Schneider 1990).

TABLE 3
Objectives Stipulated in Written Plans

Objective	Number of Firms	Percentage
Sales	408	76.4
Earnings	325	60.9
Return on investment	233	43.6
Capital growth	177	33.1
Market share	179	33.5
Sales/earnings ratio	165	30.8
International expansion	332	62.2
No objectives are established	80	15.0

Growth

Most of the objectives are related to growth. In today's world, many companies view growth as the best path to higher earnings. Indeed, the basic difference between small businesses and entrepreneurial ventures is that the latter set growth as their primary goal (Carland et al. 1988). Having discovered that many of the companies surveyed do set goals related to growth, how do they plan on attaining these goals? In order to determine how companies plan for growth and expansion, each responding company was asked if their plan included plans and budgets for each of the areas listed in Table 4.

TABLE 4
How companies Plan for Growth

Area	Number of Firms	Percentage
Hiring and training of key management personnel	202	38.4
Plant expansion	194	36.9
New product development	146	27.8
Succession plans	60	11.4
Corporate acquisitions	81	15.4
Equipment acquisitions	250	47.5
Research and development	175	33.3
Advertising	264	50.2
Plans for entering or expanding international markets	340	64.6
No plans	104	19.7

Not surprisingly, since many of the respondents were engaged in exporting activities, 64.6 percent of those with written plans had developed plans and

budgets for entering into or expanding international markets. Next are advertising and equipment acquisitions. Of all the factors listed in this section, these two areas are probably the easiest to predict. Plans for advertising and equipment acquisitions are generally formulated after the growth rate has been determined. Hiring and training of key management personnel are considered fourth most often, followed by plant expansion, research and development, and new product development. Corporate acquisitions are generally difficult to forecast and therefore are planned for by only 81 (15.4%) companies. However, it has been shown that those companies which plan for acquisitions generally outperform those firms that grow through acquisitions that were not planned (Ansoff 1970). Finally, it is interesting to note that only 60 (11.4%) companies have developed succession plans.

Financial Analyses

One of the dangers associated with growth stems from the financial mechanisms which are involved in the growth process. The problems caused by the interaction of cash flow and growth have perplexed managers for years. Enterprising managers desire to utilize the company's financial resources to provide for growth and the generation of greater profits. At the same time, they realize that they must maintain a reserve of cash (or other readily convertible current assets) which is adequate to meet expenses as they fall due. Their dilemma is a balancing process that requires accurate forecasts. Once the forecasts for future growth and expenditures have been predicted, they must be evaluated to determine if they are financially sound.

TABLE 5
Pro Forma Financial Statements Used in Planning

Financial Statement	Number of Firms	Percentage
Balance Sheet	331	62.0
Cash Flow Analysis	368	69.0
Income Statement	434	81.3
None	100	18.7

Although the financial aspects of business planning can be quite complex, they should culminate in the preparation of various pro forma statements. In order to determine what types of financial planning are undertaken by long-range planners, respondents were asked if they prepared pro forma balance sheets, income statements, and cash flows as an integral part of their long-range plan. Table 5 presents a summary of these findings. Eighty-two percent of the respondents with written plans prepare pro forma financial statements. The concern for profit is reflected in the fact that more firms prepare a pro forma income statement (81.3 %) than a cash flow analysis (69%) or balance sheet (62%).

PLANNING TOOLS

Outside Consultants

This study sought information as to whether outside consultants were used to assist in the planning process and, if so, from where the consultants were retained. Table 6 presents the findings. Thirteen firms did not respond to this question.

TABLE 6
The Use of Outside Consultants in Long-Range Planning

Source of Consultants	Number of Firms	Percentage
Consulting Firms	247	47.4
Contract Research Firms	13	2.5
Free Lance Individuals	75	14.4
None	243	46.6

Among those with written plans, almost one-half do not use the services of consultants in their planning process. This is not surprising since the great majority of smaller businesses are probably reluctant to use outside resources. The data clearly indicate that consulting firms (including auditing firms) are the single largest source of consultants. They are followed by free lance individuals and contract research firms.

The Use of Mathematical Models and Computers

The increasing proliferation of small and personal computers should make more and better information available for planners. With the use of computers, mathematical models can be developed in many instances to test alternative courses of action. Also, many parts of the planning process can be automated, thus allowing the planners more time to develop strategies.

Many articles have been written proclaiming the virtues of computers and mathematical models and how they can assist the planner, particularly by reducing uncertainty and supporting decision making (see, e.g., Georgeoff and Murdick 1986; Ansoff 1986). These articles generally focus on how large and medium-sized firms can successfully use the computer or a model to assist in planning (Klein and Linneman 1984). However, the increasing power and declining cost of small and personal computers has made them readily available to small businesses. Fully recognizing the usefulness of these tools, the questionnaire sought to determine how many of the surveyed firms presently used the computer or a mathematical model, *on a regular basis*, to assist in developing their written plans. It should be noted that the questionnaire did not inquire as to whether the responding companies used computers in areas unrelated to planning.

Among those with written plans, 39.5 percent use, on a regular basis, a computer or mathematical model to assist in planning. Brief comments describing their use were solicited. The greatest number of uses was related to financial and sales forecasting, and financial control. They include the use of spreadsheets, trend

analysis, pro forma models and, in a small number of cases, return on investment simulations.

EVALUATION

Because long-range planning is a continuous process, it should be periodically reviewed and revised. Those charged with responsibility for the plan must determine whether the company's performance and other happenings are compatible with the plan. All too often a sophisticated written plan is developed and never implemented. Instead, it is placed in a file where it remains dormant. Because of the uncertainty involved with planning, the plan must be updated as information is gathered and changes take place.

TABLE 7
Frequency of Review and Revision of Long-Range Plans

Frequency	Number of Firms	Percentage
Weekly or Less	45	8.7
Monthly	254	49.2
Quarterly	68	13.2
Semi-Annually	19	3.7
Annually	40	7.8
Never	90	17.4

To determine how often this is practiced, the respondents were each asked if their company periodically reviewed their plan and, if so, with what frequency. Several responding companies reported more than one frequency for review and revision of the plan. In these cases, only the most frequent review period was recorded. It is evident from Table 7 that monthly reviews are the most popular; they are conducted by 49.2 percent of these firms. Interestingly, 90 (17.4%) of the respondents do not have in place procedures for anticipating or detecting differences between their plan and actual performance.

DISCUSSION AND CONCLUSION

The purpose of this study was to partially fill a void in the literature by examining the planning practices of small firms in the United States, a population which has been largely ignored in past research. Because of the growing prominent role of small businesses in the economy, understanding the extent of their planning efforts is a worthwhile research theme.

These results are important for several reasons. They indicate that the planning practices of smaller businesses may be more sophisticated than generally perceived. Almost eighty-one percent of the responding companies reported that they do prepare some type of written long-range plan, and more than 69 percent of these prepare plans covering three or more years into the future. This, in itself, demonstrates that many of today's small businesses have moved beyond day-to-day managing and are planning well into the future. All but 80 of the 534 (15%) firms which attest to having a written plan establish some kind of quantified objectives. Adding further encouragement is the fact that many of the plans being prepared by these small businesses contain some fairly sophisticated elements beyond simply setting objectives for sales and earnings. For example, 43.6 percent of those who develop written long-range plans set objectives for return on investment, 33.5 percent have objectives for market share, and 30.1 percent include sales/earnings ratio. Furthermore, three-fourths of these firms identify at least one external factor that serves as input to their long-range plans; and more than 80 percent prepare specific plans related to growth, develop some type of pro forma financial statements, and utilize some type of procedure for anticipating or detecting differences between planned and actual performance.

On the negative side, only 11.4 percent of the responding companies prepare any type of succession scheme in their written plans. This is consistent with other studies that reported the inability or unwillingness of the owners of small enterprises to plan their succession (Marschak 1993; Seymour 1993; Welsch 1993; Kets de Vries 1988). In addition, less than twenty percent included personal family incomes, social/cultural trends, and non-product technological breakthroughs in their written premises, while population/demographic trends, labor/management relations, and national political developments are considered by less than one-third. Also, it is interesting to note that approximately one-half of these companies do not use any consultants, and only 8.1 percent have plans that extend beyond five years. This is unfortunate given the rapidly changing technological advances and the complexity of laws and regulations affecting business. Finally, 38 percent currently utilize a computer or mathematical models to assist in their planning.

Certainly caveats must be offered regarding the conclusions generated by this research. First, there is a need to replicate our findings using different populations and measures and larger samples. For example, firms in other regions of the United States should be surveyed. An additional limitation concerns the generalizability of these results. A study such as this one focuses on many firms in one industry - manufacturing - thus insuring a greater homogeneity among the companies that are examined. However, it opens a line of inquiry on whether these results are valid across other industries. Thus another study which is devoted to other industries would be a fruitful endeavor.

An additional cautionary note concerns the possibility of bias in the data provided by the companies which were sampled in this study. Although this cannot be completely ruled out, a number of authors have pointed out that self-report measures are indispensable in organizational research (Gupta and Beehr 1982; Podsakoff and Organ 1986). This is consistent with Steiner and Miner's (1986) assertion that direct obser-

vation of top executives at work is not a practical approach; "only self-reports ... can provide an indication of the time ... spent in decision making and planning ..." (p. 195). Indeed, in certain research contexts, self-reports may provide more accurate estimates of population parameters than behavioral measures (Howard et al. 1980).

Another question that arises from this research pertains to succession plans. Given the importance of this issue, future studies should provide possible explanations for the absence of such plans in nearly all (89%) of these businesses. While this issue is especially critical for small businesses, it is not surprising that so few firms address the problem, given the sensitive nature of this issue. Another possible explanation is that current owners view the question of succession as being far away into the future and therefore not pertinent at the present time. This is consistent with recent research reporting that in small family-owned businesses "55 percent of CEOs 61 or older who are expected to retire soon have not chosen a successor" (Family-run companies face leadership crisis, 2003, p. 25).

Although this study provides many important insights, the results raise additional research questions that merit further study. For example, to what extent do the long-range planning practices of these businesses differ from, or are similar to, those that are family-owned? Another interesting issue concerns the relationship between planning and performance. That is, is the performance of firms categorized as planners different from that of non-planners? Also, future research should address the role of the board of directors and its degree of involvement in long-range planning. Studies that have examined this issue have focused mostly on large firms. Finally, a comparison of U.S. firms with their counterparts in other countries would be an interesting future research avenue. In conclusion, this study's major findings will hopefully contribute to efforts to focus the attention of researchers, business practitioners, and policy makers on the needs and challenges facing small firms. These companies can be formidable competitive forces both domestically and internationally as they often are the sources of technological innovations. Such findings should accelerate the search for ways to improve the capacity of small firms to remain competitive in the global marketplace.

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