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# STRATEGIC PLANNING IN SMALL FIRMS: ACTIVITY AND PROCESS REALITIES

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## ABSTRACT

*Research on small firm planning has established that small firms plan and has generally indicated that planning has value. Strategic plan content research often focuses on developing a written plan. Little research has focused on who engages in planning and who does not. This study investigated the relationship between individual and firm differences and the extent to which planning takes place in the firm. Owner demographics, such as education, age, and years in business, had little relationship with planning activity levels while firm sales and number of employees were related to several planning activity measures.*

## INTRODUCTION

Prior to Robinson and Pearce's (1984) extensive literature review, research concerning strategic planning in small firms found planning levels to be "anemic" (Sexton & van Auken, 1982). In response, Robinson and Pearce (1984) suggested four research thrusts for future investigation on the subject: (1) to empirically confirm the presence or absence of strategic planning practices; (2) to provide empirical evidence of the value of strategic planning; (3) to examine the appropriateness of specific features of the planning process; and (4) to empirically examine the content of the strategies of small firms. Several studies have been published which have attempted to follow one or more of those prescriptions. However, researchers have generally not investigated the last two thrusts - specific features of the planning process, and the content of small firm strategies. A more recent review of fourteen studies (Shwenck & Shrader; 1993) concludes that strategic planning is positively related to performance, though there may be other variables which moderate that relationship.

## LITERATURE REVIEW

Research strongly supports the notion that many small firm owners do plan and set goals (Lyles, Baird, Orris, & Kuratko, 1993; Naffziger & Kuratko, 1991). Further, studies generally confirm that the planning process has value (Gaskill, van Auken, & Manning, 1993; Haswell & Holmes, 1989), that strategic planning is within the domain of managerial responsibilities, and is an important factor in small business success (Montagno, Kuratko, & Scarcella, 1986.

Numerous authors (e.g., Lyles et al., 1993; Langley, 1988; Orpen, 1985; Robinson & Pearce, 1984) have indicated that simply engaging in a formal planning process seems to be beneficial as it leads to a better understanding of the business, and that strategic planning leads to the development of a wider range of strategic alternatives which was hypothesized to lead to better firm performance (Lyles et al., 1993).

The most recent survey of the literature on small firm planning is Schwenk and Shrader (1993). Their review of the literature, prior to their own analysis, showed 13 studies that found a positive relationship between formal strategic planning and financial performance and four which found a positive relationship between the content of the strategic plan and performance. Additionally, though, Shwenck and Shrader found ten studies that concluded there is little or no relationship between strategic planning and financial performance. In the final analysis, however, Schwenk and Shrader concluded from their meta-analysis of 14 studies that they were "able to provide straightforward support for the general assertion that strategic planning does have a significant positive association with performance across studies" (1993: 60). They concluded there is a need for longitudinal studies on the incremental impact of strategic planning and study of any contingent relationships between contextual factors, such as environmental uncertainty, and the impact of strategic planning.

Most recent research on the process of strategic planning in small firms seems to deal in generalities, using some measure of "formality" to define the strategic planning process (Bracker & Pearson, 1985; Lyles et al., 1993; Olson & Bokor, 1995; Robinson & Pearce, 1983). Several studies have investigated the impact of other factors on the strategic planning process in small firms, such as owner receptivity to the use of planning tools (Pelham & Clayson, 1988), models of strategic choice (Variyam & Kraybill, 1993), and the effect of perceived environmental uncertainty on planning (Matthews & Scott, 1995; Shrader, Mulford, & Blackburn, 1989). Naffziger and Kuratko (1991) investigated the actual process of developing plans to determine how much time managers spent on this function, whether goals were set and in what areas, and what kind of activities were included in the planning process in small organizations, such as environmental scanning and level of planning activity.

If we accept the general proposition that planning has become more widespread throughout small firms (shown in several studies) and if we acknowledge that differences between individuals exist, then we should also accept the proposition that not all small business owners will plan in a similar fashion or to the same extent. Individuals will allocate their time differently according to their strengths, personal preferences, and time constraints, among other factors. What activities and methods lead to effective planning and what may not? As planning has been shown to have a positive benefit, it is important to understand what factors might encourage or inhibit owners from engaging in more effective strategic planning activities. This research is a preliminary step in the process of determining what individual and firm differences are related to various levels of planning activities and behaviors.

## METHODOLOGY

An initial list of 60 small firms was compiled from various Midwestern Chambers' of Commerce membership rosters. Small firms were defined as having 500 or fewer employees. Potential respondents were contacted via telephone and requested to participate in an ongoing university effort to study small businesses, their owners, and the planning processes used in their companies.

Owners were informed that participation was voluntary and all responses would be kept confidential. The final sample consisted of 46 (77%) small firm owners and top managers. Firms included in the study were from a cross-section of industries: banking, automobile parts manufacturing, commercial sales, consumer sales, construction, miscellaneous manufacturing (e.g., plastics fabrication, metal fabrication), and miscellaneous services (e.g., insurance, education, advertising.) The final sample was distributed among 33 (71.7%) service and 13 (28.3%) manufacturing firms. Graduate research assistants, trained in survey techniques, personally delivered and administered the surveys to participants to ensure receipt and completion. The above format has been utilized in similar studies of small firms (e.g., Hornsby & Kuratko, 1990; McEvoy, 1984).

Data were gathered using a 44-item questionnaire. Thirty-four items related to the strategic planning process in small firms, and focused on both the process and the content of the strategic plans. These items were developed based on the literature review of Robinson and Pearce (1984) and Orpen (1985). Respondents indicated whether an item pertained to their respective firm's planning process, such as whether or not goals were established as part of strategic planning using a "yes/no" format, or the extent to which certain activities were included in their planning. Questions of the latter nature used a seven-point Likert-type scale that ranged from (1) the item "not at all," to (4) "some but not a lot," to (7) "a great deal." Ten items investigated the demographic characteristics of the respondents and their firms. For owner age and company annual sales, a range of five response categories was provided.

Frequency analysis was used to examine the demographic characteristics to determine if the sample was representative of small businesses in general to determine whether the demographic data was distributed over a broad range of possible responses (e.g., age, college versus non-college graduate.) T-tests were used to determine the extent to which differences in planning activity and process levels were related to firm and owner characteristics.

## RESULTS

The demographic profile of the sample is presented in Table 1. Forty-two respondents (91.3%) were male, a finding somewhat higher than normal. Subjects ranged in age from under 21 to 56 or more years; a little more than half (n=27, 58.7%) were over 45 years old. Twenty-seven (63.0%) possessed college degrees. Firms had been in business between 2 and 126 years, with a mean of 29.9 years. Only one (2.0%) firm had annual sales under $500,000, 14 (30%) between $1-5 million, 11 (24%) between $5-10 million, and 18 (39%) had sales of $10 million or more, with the median between $5-$10 million. The number of employees ranged from a low of six to a maximum of 500 (one firm), with an average of 96.5 employees; 25 (54.3%) firms employed fewer than 50 people. Thirty-six (78.3%) respondents were members of trade associations.

For the purpose of performing t-test analyses, firm and owner demographic variables were split as close to 50/50 as possible when appropriate. "Years in business" was split at 20 or fewer (n=25, 54.3%) and 21 or more (21, 45.7%). "Number of employees" was split at 50 or fewer (25, 54.3%) and more than fifty (21, 45.7%). Categorical responses for "annual sales" were split at $10,000,000 or less (29, 63.3%) and more than $10,000,000 (17, 36.6%). Categorical responses for owner age were split at 45 and under (19, 41.3%) and 46 and over (27, 58.7%). "Education" was split along the division of college graduate (27, 61.3%) or not (17, 38.7%), and "trade association membership" was simply member (36, 78.3%) or not (10, 21.7%). Due to the small percentage of female respondents, gender was not included as one of the independent variables.

**Table 1 - Sample Demographics**

| ITEM | | Mean | Med. | St.Dev | n | % |
|---|---|---|---|---|---|---|
| **Gender:** | | | | | 46 | 100 |
| | Male | | | | 42 | 91.3 |
| | Female | | | | 4 | 8.7 |
| **Age:** | | | | | 46 | 100 |
| | 1. 35 and under | | | | 6 | 13.0 |
| | 2. 36-45 | | | | 13 | 28.3 |
| | 3. 46-55 | | | | 17 | 37.0 |
| | 4. 56 + | | | | 10 | 21.7 |
| **College Graduate:** | | | | | 46 | 100 |
| | Yes | | | | 27 | 61.3 |
| | No | | | | 17 | 38.7 |
| **Years in Business:** | | 29.9 | 20.0 | 29.1 | 46 | 100 |
| | 5 or fewer | | | | 6 | 13.0 |
| | 6 to 10 | | | | 7 | 15.3 |
| | 11 to 20 | | | | 12 | 26.0 |
| | 21 + | | | | 21 | 45.7 |
| **Annual Sales:** | | | | | 46 | 100 |
| | 1. Less than $500,000 | | | | 1 | 2.4 |
| | 2. $500,001 to $1,000,000 | | | | 0 | 0.0 |
| | 3. $1,000,001 to $5,000,000 | | | | 16 | 34.1 |
| | 4. $5,000,001 to $10,000,000 | | | | 12 | 26.8 |
| | 5. $10,000,000 + | | | | 17 | 36.6 |
| **Number of Employees:** | | 96.5 | 47.5 | 115.0 | 46 | 100 |
| | fewer than 20 | | | | 2 | 4.3 |
| | 20 to 50 | | | | 23 | 50.0 |
| | 51 to 100 | | | | 7 | 15.3 |
| | 101 + | | | | 14 | 30.4 |
| **Trade** | **Association:** | | | | 46 | 100 |
| | Yes | | | | 36 | 78.3 |
| | No | | | | 10 | 21.7 |

## Planning Activity Variables

Eight items measured various planning activities owners might engage in as part of the strategic planning process. T-tests were used to determine whether subjects included these activities differently according to personal or business demographic characteristics.

The items included in this category were termed "planning activity measures" because they focused on "things that are done" during the strategic planning process such as hours per month spent on planning, number of methods used to gather strategic information, and the presence of a written mission statement. Eleven out of 48 combinations of planning activity and demographic variables were identified as statistically significant ($p < .10$). The two size variables, number of employees and annual sales, contained eight of those eleven, all of which were significant at the $p = .05$ level or lower. Owner age and trade association membership possessed no significant relationships with any of the planning activity measures.

## Planning Process Variables

Eight items also measured various aspects of the process subjects used during strategic planning. This group of variables focused more on "how things were done" and included items such as the number of top managers involved, the number of information types used, and the use of reward systems during planning. T-tests were again used to determine whether subjects approached the process of strategic planning differently according to personal or business characteristics. Table 3 presents the results of that investigation. Only eight statistically significant relationships ($p < .10$) were identified out of a possible 48. As with the planning activity measures, the number of employees in a firm had the most significant relationships with the planning process variables.

**Table 2 - Means for Planning Activity Measures**

| | VARIABLE | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ITEM | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| **Yrs. in Business** | | | | * | | | | |
| 0-20 yrs. | 9.3 | 4.9 | 3.5 | 3.8 | 1.5 | 4.9 | 2.7 | 1.3 |
| 20 + yrs. | 15.1 | 4.9 | 3.6 | 4.8 | 1.6 | 5.0 | 3.2 | 1.6 |
| **# Employees** | | * | *** | * | *** | ** | | |
| 0-50 | 9.8 | 4.3 | 3.0 | 3.8 | 1.8 | 4.0 | 2.8 | 1.6 |
| 50 + | 14.1 | 5.5 | 4.1 | 4.7 | 1.3 | 5.9 | 3.0 | 1.2 |
| **Annual Sales** | | ** | * | | ** | | | |
| <$10MM | 13.7 | 4.4 | 3.2 | 4.0 | 1.7 | 4.5 | 2.9 | 1.4 |
| >$10MM | 10.7 | 6.0 | 4.1 | 4.7 | 1.3 | 5.4 | 2.9 | 1.4 |

*** < .001 ** < .01 * < .05

**Variables**

1 = *Hours/Month Spent Planning*
2 = *# of Methods Used to Gather Strategic Info.*
3 = *# of Types Strategic Info. Gathered*
4 = *Extent of Formalization Using Meetings*
5 = *Presence of A Written Mission Statement*
6 = *# of Goals Set*
7 = *# of Outcome Measures Used*
8 = *# of Strategic Management Concepts Used*

**Table 3 - Means for Planning Process Measures**

| | VARIABLE | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ITEM | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Yrs.in Business | | | | | | | | |
| 0-20 yrs. | 3.2 | 3.3 | 0.7 | 0.6 | 0.4 | 1.0 | 4.2 | 3.1 |
| 20 + yrs. | 3.3 | 4.2 | 0.7 | 0.8 | 0.6 | 0.8 | 5.1 | 3.2 |
| **# Employees** | * | | | ** | | | | |
| 0-50 | 2.7 | 3.7 | 0.6 | 0.5 | 0.5 | 0.9 | 4.3 | 2.8 |
| 50 + | 3.8 | 3.7 | 0.8 | 0.9 | 0.5 | 1.0 | 4.9 | 3.6 |
| **Annual Sales** | ** | | | | | | | |
| <$10MM | 2.4 | 3.8 | 0.6 | 0.6 | 0.4 | 0.8 | 4.3 | 2.9 |
| >$10MM | 4.1 | 3.6 | 0.7 | 0.8 | 0.5 | 1.3 | 5.1 | 3.6 |

*** < .001 ** < .01 * < .05

**Variables**

1 = *# of Top Management People Involved in Process*
2 = *Lower Level Employees Actively Involved*
3 = *Plan Communicated Down to Mid-Level Managers*
4 = *Plan Communicated Down To Supervisors*
5 = *Plan Communicated Down to Hourly Personnel*
6 = *# of Times That Information Is Gathered*
7 = *Reward System Used to Secure Employee Commitment*
8 = *# of Types Of Rewards Used To Motivate*

Though not formally hypothesized, it was recognized that owner satisfaction with both the process and the results of strategic planning is an important concern. However, an examination of those items across the demographics revealed that the only statistically significant relationships regarding those variables were between years in business and satisfaction with the planning process ($p = .025$), and trade association membership and satisfaction with the results of the planning ($p = .035$). In other words, it appears that the longer a firm has been in business, the more satisfied its managers are with the planning process, and managers who are members of trade associations are more satisfied with the results of their planning than managers who are not.

## DISCUSSION AND CONCLUSIONS

This research continued to verify that small firm owners spend a great deal of time and effort on strategic planning. While arguments can be made that certain demographic characteristics should be related more strongly to planning activities and process management, the findings here, in general, do not support that contention. Results of the analyses suggest that these variables are somewhat evenly distributed through this population. Primarily, the only firm or owner characteristics which were related to differences in planning dealt with firm size. The number of employees, a measure of size, was the only independent variable with a notable number of significant relationships. Another measure of size, annual sales, was the second most prolific, with four significant relationships. Though these results may substantiate the hypothesis that a relationship exists, care must be taken regarding causality. For example, questions remain whether larger firms plan more simply because they are larger and more complex. Do they plan more because there are more dollars at risk? Did they plan less when they were smaller? Conversely, are those firms larger because they planned more?

Owners of firms with more employees, and to a lesser extent higher sales levels, reported performing more planning activities than did owners of smaller firms.

The relatively small number of significantly strong relationships could lead to the conclusion that perhaps there are few important relationships between personal and/or business characteristics and strategic planning. However, it could be that all relevant individual and firm characteristics were not included. For example, no measures of individual time management or organizational skills were measured. Significant differences in strategic planning among small firms may be due to other factors, such as an individual's tendency to be better organized or have a more participatory philosophy about managing a business. It is also possible that the measures included in this study are not an accurate picture of the process of strategic firm management. Finally, a larger sample, allowing for a breakdown between industries, such as service, retail, and manufacturing, is recommended.

Additional research needs to be done before the relationship between owner and business characteristics and strategic planning can be fully understood. For example, intuitively it is attractive to think that college educated owners will place more value on planning, yet if their degrees were in non-business areas, their education would likely not have included a course on strategic planning. Similarly, when considering owner age, one could argue two ways: younger owners may approach their firms more professionally because of their more recent education and focus on planning or exposure to media on managing entrepreneurially. On the other hand, an argument could be made that older owners have had the time to realize the value of planning and their businesses have grown to a size where it permits them the time and other resources to plan. Additionally, one would like to think that owners who have taken time to join trade associations would approach management in a more "professional" manner. It is, therefore, argued that the strategic planning process in small firms continues to merit study.

Additional questions to gain more insight into the "whys" and "wherefores" of small firm strategic planning need to be asked. Future studies should investigate such issues as the value that owners realize by allocating time to strategic planning. An important direction for such questioning would look at how planning has helped. For example:

- What differences do owners see in their firms or their own managerial capabilities as a result of planning?
- Has planning helped managers to more clearly see future trends?
- Which aspects of the process seem most helpful?
- Are managers in firms that plan better organized or caught off guard less often?
- Have they been able to be more proactive in their business?
- Do they see differences in their employees as a result of being involved in planning?
- Can they better identify business strengths and weaknesses or external opportunities and threats as a result of planning?
- Has planning helped to clarify goals and strategies better for employees?
- Have employees been more motivated as they become more involved in strategic planning or as they are rewarded for achieving strategically relevant targets?

With those questions in mind it is recommended that further research be undertaken and this study be considered exploratory. Perhaps at some point in time, a model can be developed which accurately delineates the entire strategic management process in small firms. While prescriptive in nature, such a model could undoubtedly be an asset in the strategic management process of small firms.

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