



1994

Formalized Planning in Small Business: Increasing Strategic Choices

L. S. Baird

M. A. Lyles

J. Burdeane Orris

Butler University, orris@butler.edu

Follow this and additional works at: https://digitalcommons.butler.edu/cob_papers



Part of the [Business Administration, Management, and Operations Commons](#), and the [Other Business Commons](#)

Recommended Citation

Baird, L. S.; Lyles, M. A.; and Orris, J. Burdeane, "Formalized Planning in Small Business: Increasing Strategic Choices" (1994). *Scholarship and Professional Work - Business*. 21.
https://digitalcommons.butler.edu/cob_papers/21

This Article is brought to you for free and open access by the Lacy School of Business at Digital Commons @ Butler University. It has been accepted for inclusion in Scholarship and Professional Work - Business by an authorized administrator of Digital Commons @ Butler University. For more information, please contact digitalscholarship@butler.edu.

Formalized Planning in Small Business: Increasing Strategic Choices

by Marjorie A. Lyles, Jnga S. Baird, J. Burdeane Orris, and Donald F. Kuratko

Research shows a rather consistent, positive relationship between the extent of planning activities and the performance of small businesses (Robinson and Pearce 1984). This relationship is found despite differing definitions of small businesses, ways of assessing formality of planning, and types of performance measures utilized. However, Robinson and Pearce (1984) called for increased study of the relationships among planning formality, strategy content, and firm performance, thereby encouraging a more complex view of strategic management processes and results in small firms.

The primary purpose of this study is to examine the relationship between planning formality and three other elements—the process by which the strategic decisions are made, the content of small firm strategies, and firm performance. It is proposed that small firms which do more formal planning will also have a more comprehensive strategic decision process and adopt a wider variety of alternative strategies than will non-formal planners. This increased attention to the decision process and the consideration of more strategic options may be associated with higher levels of growth and profitability for the formal planners.

MEASURING THE FORMALITY OF PLANNING PROCESSES

In previous research dealing with the formality of planning in large businesses, the typical approach has been to: a) define the planning system elements; b) measure the formality of the elements; c) develop a formality scale; and d) categorize firms based on their scores on the formality scale. Formality has been measured by assessing such things as the degree of planning manual usage, the amount of emphasis on developing *written* plans, and/or the existence of specific schedules for formulating plans (Wood and LaForge 1981; Grinyer, Al-Bazzaz, and YasaiArdekani 1986; Rhyne 1986; Ramanujan and Venkatraman 1987; Fredrickson 1984).

Previous research on small businesses has concentrated more on identifying broad, formalized, planning categories rather than on measuring differences in formality in terms of one- or two-point differences on a planning formality scale. Bracker and Pearson (1986) identified eight planning components: objective setting; environmental analysis; strengths, weaknesses, opportunities, and threats (SWOT) analysis; strategy formulation; financial projections; functional budgets; operating performance measurement; and control procedures. Based on the presence of these components in small firm planning, they developed four levels of planning sophistication including structured strategic planning, structured operational planning, intuitive planning, and unstructured planning. Then they compared financial performance between structured (formal) strategic planners and the other groups. Similarly, Robinson and Pearce (1983) grouped small firms into broad planning categories based on the extent of written documentation and inclusion of various planning steps.

This broader definition of planning formality is important in order to reflect the entrepreneurial thought processes and actions that permeate the small organization. The direct application to

smaller firms of planning formality measures developed in large, bureaucratic companies is inappropriate. Therefore, in this study, planning formality is conceptualized and measured in a manner relevant to small businesses so that the formal structuring of their long-term plans as well as the thoroughness of their planning system is captured.

STRATEGIC DECISION PROCESS

Fredrickson (1984, 1986) argues that planning formality does not represent what actually occurs during the strategic decision process. Following his argument, planning formality and the decision process utilized may be two separate constructs. It is possible to have a highly formal planning system that is not associated with comprehensiveness in the decision process. Therefore, while each of these constructs can be studied separately, the relationship between them may also be the focus of study.

Several researchers have considered the relationship between formal planning and elements of the strategic decision process in large firms. Camillus (1975) suggested that formal planning systems enhance decision processes by encouraging creativity and new ways of thinking about the future. Ramanujan, Venkatraman, and Camillus (1986) found that a key effect of formal planning is that it alters specific elements of the overall strategic decision process. Thus, formal planning is often associated with the adoption of key steps in the decision process.

The relationship between the formal planning system and the firm's decision process is particularly important to small businesses, where there may be little separation between the strategic thinking/decision making of the entrepreneur and the formal planning system. Small business owners apparently are sensitive to how formal planning can improve their decision process. Shuman, Shaw, and Sussman (1985) concluded that 72 percent of the *Inc.* 500 CEOs believe planning leads to a better decision making process and better decisions. Naffziger and Kuratko (1991) found that 78 percent of the small business owners surveyed set formal goals for periods longer than one year while 92 percent set formal goals for shorter periods. These owners indicated a high degree of satisfaction with their strategic decision process. Robinson and Pearce (1984) determined that the formal planning process, not just the resulting plan, was recognized by small business managers as important to firm performance. These three articles lend support to the idea that small business owners believe formal planning enhances the decision process.

However, Robinson and Pearce (1983) found that in small firms the formality of the planning process and the strategic decision process used were not related. The elements of the strategic decision process they examined include concern for each of the following: assessing risk through environmental scanning; formulating goals and targets to be achieved in the competitive environment; selecting distinctive competencies in order to gain a competitive advantage; determining authority relationships among the firm's departments; deploying financial and physical resources to carry out firm strategies; and monitoring and controlling implementation. Robinson and Pearce (1983) found that formal and non-formal planners follow basically the same strategic decision process differing only on one dimension-formal planners place more emphasis on formulating goals.

The first research question addressed in this project examines this relationship between the strategic decision-making process and the formality of planning in small firms. Despite Robinson and Pearce's (1983) findings that non-formal and formal planners placed similar levels of emphasis on each element of the decision process except goal formulation, it is felt that the preponderance of evidence from other studies (Shuman, Shaw, and Sussman 1985; Robinson and Pearce 1984; Naffziger and Kuratko 1991) supports a direct relationship between planning formality and amount of emphasis on each element of the decision process. Therefore, it is proposed here that significant differences exist between formal and non-formal planners in their emphasis on each of the six elements of the decision process studied by Robinson and Pearce (1983):

Hypothesis 1: For small businesses, the degree of emphasis placed on each, dimension of the strategic decision-making process by formal planners will be significantly higher than that of non-formal planners.

FORMAL PLANNING AND STRATEGY CONTENT

Few studies have considered strategy content as a relevant variable in small firm planning research. Robinson and Pearce (1984) called for greater emphasis on the content of small business strategies. In 1988, they specifically addressed the content-process performance issue in an inter-industry sample of *large* manufacturers and found that the level of planning sophistication significantly moderated the content-performance relationship. However, the tie between formality of the planning process and content of firm strategies has not yet received much attention in studies of small firm planning.

The relationship between formality of planning and the content of strategies is explored as the second research question. Since this relationship has rarely been tested, it is difficult to hypothesize the exact differences in strategy content. However, it is possible to propose that the formal planning process may lead small businesses to consider a wide range of both classic and innovative strategies as they rigorously scan the environment and evaluate a large number of strategic options identified by the process.

Usual small business strategies for product and market development such as market penetration, entering new markets alone, developing new products on their own, and exporting (Chaganti, Chaganti, and Mahajan 1989) have as their focus a single firm outperforming rivals in the competitive marketplace. These *competitive* strategies are traditional recommendations for small businesses (Dilts and Prough 1989) and may be identified in a thorough planning process. However, *cooperative* strategies for product and market development and firm growth such as domestic alliances for market entry, foreign alliances for product development, and equity investment by partners are rarely adopted by small businesses (D'Souza and McDougall 1989). Discovery and choice of these innovative options may result from thorough formal planning efforts in which traditional strategic assumptions are challenged (Mason and Mitroff 1981) and creativity in thinking about the firm and its future is enhanced (Camillus 1975).

It is proposed here that formal planners will emphasize both the traditional competitive strategic options and the cooperative strategic options more strongly than will non-formal planners.

It is suggested that this difference derives from a more thorough planning process that encourages consideration and study of a larger number of strategic options in the course of formal planning activities:

Hypothesis 2: The degree of emphasis on competitive and cooperative strategic options by formal planners will be significantly higher than that of nonformal planners.

STRATEGIC PLANNING EFFECTIVENESS

Previous studies have attempted to determine the effect of the planning process on firm financial performance. These efforts have divided firms into those with formal planning systems and those without formal planning systems and related these to measures of financial performance (Fulmer and Rue 1974; Kudla 1980; Pearce, Freeman, and Robinson 1987; Wood and LaForge 1979). These studies were based on the assumptions that formal planning leads to better financial performance and that the effectiveness of the planning process could be determined by looking at the financial returns of the firm.

This theory has not been supported strongly by empirical testing. For both large and small firms the results have been mixed when planning formality has been related to financial performance (Wood and LaForge 1979, Kudla 1980). Consequently, researchers have taken a more contingent view toward the planning-performance relationship and have begun to control for firm size, industry environment, entrepreneurial/managerial characteristics, etc. (Grinyer, Al-Bazzaz, and Yasai-Ardekani 1986). However, the results regarding small firm planning and performance remain mixed.

Robinson and Pearce (1983) found no significant performance differences between formal and non-formal small business planners. They concluded that planning formality is not necessary for good small firm performance in the banking industry because small firms appear to enhance their effectiveness by informal application of basic, strategic decision-making processes. In contrast, Bracker, Keats, and Pearson (1988) found that structured strategic planners among small firms in a growth industry outperformed all other types of planners on financial performance measures.

The third research question, therefore, focuses on a re-examination of the performance effects of formalized planning on profitability and growth in sales. Contradictory results in previous research make the existence and the direction of the effect difficult to predict. However, based on the more recent work of Bracker, Keats, and Pearson (1988), it is expected that formal planners will outperform non-formal planners on profit and growth:

Hypothesis 3: The return on equity, return on assets, and growth in sales of formal planners will exceed that of nonformal planners.

METHODOLOGY

Sample Selection

Few studies have addressed the relationship among strategy content, planning formality, and strategic choice. Consequently, the exploratory nature of this study affected sample selection

parameters. In order to obtain a clear representation of the strategic choice and decision-making process in small firms, only independent businesses were chosen. To insure a common business and economic environment, the sample was chosen from a single geographic region. Therefore, the mediating effects of external factors such as taxes, labor costs, etc., were controlled.

Since the research questions of this study dealt with the relationships between planning formality and the planning process, strategy content, and firm performance in small businesses, no restrictions were placed on the industry of the small businesses included in the sample. The larger sample size that resulted from this decision enabled more complex statistical tools to be employed (Robinson and Pearce 1988). However, the main basis for this choice was the belief that the decision and planning processes of small firms were more likely to be a function of the common nature of entrepreneurial firms (Mintzberg 1991) than the industry involved. Similarly, the strategies described were generic enough that they would be relevant choices across industries.

The main effect of industry differences is likely to be on firm profitability. However, since the statistical tests that were performed showed that formal and non-formal planners were similarly distributed across industry groups, this effect should not come into play differentially in affecting performance. Also, firm profitability relative to the average profitability for each firm's industry was calculated and used in the statistical tests.

Procedure

Small business owners or managers were interviewed by students in a small business course using a structured interview format that resulted in a questionnaire being returned for each firm. The students were trained in the administration of the questionnaire. The owners were contacted by telephone and advised that the study was part of an ongoing university effort to study small businesses. They were then asked to participate and an interview time was established. Few of the owners contacted refused to be interviewed. Those who chose not to participate typically gave reasons such as they were too busy or they never participate in surveys.

During the interview, a pretested, structured questionnaire was completed for each firm. A structured survey instrument was used to limit the variation among interviewers. More in-depth probes or open-ended questions would have been helpful to clarify motivations, opinions and thought processes. However, in this study, a structured approach was used to increase reliability and validity in responses obtained.

Sample Composition

Information was solicited from small businesses located in the Midwestern United States. The firms selected for the sample had been in business for at least four years, had fewer than 500 employees, and had gross sales of \$1 million or more.

Usable questionnaires were returned on 188 firms: including 37 service firms with an average of 76 employees and gross sales of \$4.4 million in 1988; 22 construction firms with an average of 38 employees and sales of \$7.1 million in 1988; 53 retailers/distributors with an average of 44 employees and \$6.6 million in sales for 1988; 64 manufacturers, with an average of 87 employees and \$11.7 million in sales for 1988; and 12 firms in the agriculture, engineering,

restaurant, and other categories. They ranged in size from 5 to 500 employees with a mean of 35 employees. Only 30 percent of the firms had more than 50 employees.

The firms were an average of 22 years old. Thirty-two had been in business for 5-10 years, 47 for 10-20 years, 35 for 20- 30 years, 22 for 30-40 years, 17 for 40-50 years, and 35 for 50-150 years.

This industry, size, and age distribution is characteristic of the state's small business population, indicating nonresponse bias is minimal. Although managers of poorly performing firms may have been reluctant to be interviewed for the study, there is no indication of a non-response bias that would affect comparisons on planning formality, decision process, or strategy.

Measures

Planning formality. To operationalize planning sophistication, the question set designed by Robinson and Pearce (1983) and subsequently used by Bracker, Keats and Pearson (1988) was utilized. The questions were reworded slightly to adapt them to firms other than banks. Utilizing this approach allowed the measurement of planning formality to be consistent with previous studies of small and large businesses so the results could be compared.

Three levels of planning sophistication are detailed in the Robinson and Pearce instrument. These include (1) no written plan covering at least three years into the future, (2) a written plan that includes objectives, strategies and resource requirements for at least three years into the future, and (3) a written plan that includes objectives, strategies, and resource requirements as well as control procedures and data regarding factors from outside the immediate firm environment for at least three years into the future.

Those firms responding that they had no written strategic plan covering three years into the future were coded as nonformal planners ($n = 117$) and the others were classified as formal planners ($n = 71$). The non-formal planners may well have made strategic plans but had not committed to a formal process of developing a written, long-range plan. Of the formal planners, only 14 had a complete three-year written plan including all five elements while 57 had committed three elements of the plan to writing. The small number of companies with a complete written plan made statistical comparisons with the other groups difficult. Since committing three elements of a long-term plan to writing seems more similar to committing all five elements to writing than to having no long-term written plan, those with either level of written plans were classified as formal planners.

Strategy options. Strategy options were enumerated in a question containing nine items. Three of the strategies such as "extending current products into new markets by yourself" were classified as competitive strategies. The remaining six items such as "domestic cooperative alliances to enter new markets" related to cooperative strategies. The respondents were asked to what extent they relied on the strategic option to ensure the continued success of their firm. This utilized a five-point Likert scale where 1 = little and 5 = great.

Strategic decision processes/environmental scanning. The six dimensions of strategic decision making identified and utilized by Robinson and Pearce (1983) were used to characterize decision processes. Respondents were asked to indicate the degree of emphasis placed on each of six

process steps in their strategic decision making. Three additional items asked the respondents to identify the number of new competitors, the number of new foreign competitors, and the number of major environmental changes in the last five years. These items were used as measures of environmental awareness in the strategic decision process.

Data Analysis

The hypotheses were tested on each measure and item using a *t-test* that compared the mean responses between the groups of non-formal planners and formal planners. Return on assets 1988, return on equity 1988, and sales growth rate (1987-1988) were also calculated and evaluated for the 67 firms who provided that data.

Correlations among survey items are presented in tables 1A and 1B. Means and standard deviations are presented in the relevant tables. To statistically control for industry, firm size, and age of formal and non-formal planners, analysis of variance was performed.

RESULTS

Differences between Formal Planners and Non-Formal Planners

The two groups of formal planners and non-formal planners were evaluated to determine if they differed significantly in size. The results indicated that the formal planners had an average of 101 employees, while the non-formal planners had an average of 47 employees ($p = .001$). The sales of the groups also showed a significant difference ($p = .01$) between the two groups with the average sales for formal planners being approximately \$9 million and the average sales for non-formal planners being approximately \$6 million. The size by industry by planning formality analysis showed that only in the manufacturing and construction industries were formal planners significantly larger than non-formal planners. However, this difference did not appear in retailing and, service/distribution industries. There were no significant differences between the formal and non-formal planners on firm age.

Strategic Decision-Making Process

The results of testing Hypothesis 1 are shown in table 2. It was hypothesized that a small firm's decision process would be related to the formality of its planning.

This hypothesis was supported on five of the six strategic decision-making dimensions. The formal planners placed significantly greater emphasis on formulating goals, selecting distinctive competencies, determining authority relationships, deploying resources, and monitoring implementation than did non-formal planners. These differences in decision process may be a function of the increased bureaucracy that accompanies larger size since formal planners were larger than non-formal planners in the manufacturing and construction industries.

It is interesting to examine the mean score pattern of the two groups regarding the emphasis placed on each dimension of strategic decision-making. The formal planners emphasize formulating goals, deploying resources, and monitoring implementation the most, whereas the non-formal planners emphasize deploying resources and selecting distinctive competencies as the most important dimensions.

The groups did not differ significantly in the emphasis that they place on environmental

scanning. Previous research suggests that small businesses engage in less formalized, more operational, and more personal planning than larger firms (Robinson, Logan, and Salem 1986) and that they utilize friends, family, and magazines to collect information (Smeltzer, Fann, and Nikolaisen 1988). The results of this study showed no differ-

Table 1A
CORRELATIONS FOR DECISION PROCESS

	1	2	3	4	5	6
1. Scanning	1.00					
2. Goals Formulation	.13	1.00				
3. Distinctive Competence	.23*	.32**	1.00			
4. Authority	.21*	.20	.19	1.00		
5. Resources	.20	.24*	.21*	.33**	1.00	
6. Implementation	.19	.40**	.37**	.29**	.53**	1.00

* $p < .01$.

** $p < .001$.

Table 1B
CORRELATIONS FOR COOPERATIVE AND COMPETITIVE STRATEGIES

	1	2	3	4	5	6	7	8	9
1. Extend Current Products to New Markets by Self	1.00								
2. Develop New Products by Self	.19	1.00							
3. Export	.15	.40**	1.00						
4. Domestic Cooperative Alliances to Enter New Markets	.30**	.12	.24**	1.00					
5. Foreign Cooperative Alliances to Enter New Markets	.15	.38**	.31**	.30**	1.00				
6. Domestic Cooperative Alliances to Develop New Products	.08	.29**	.60**	.21*	.43**	1.00			
7. Foreign Cooperative Alliances to Develop New Products	.25*	.21*	.51**	.31**	.23*	.48**	1.00		
8. Equity Investment by Foreign Company	.04	.34**	.51**	.15	.24*	.51**	.33**	1.00	
9. Equity Investment by Domestic Company	-.07	.36**	.35**	.11	.19	.26**	.19	.51**	1.00

* $p < .01$.

** $p < .001$.

Table 2
DEGREE OF EMPHASIS IN STRATEGIC DECISION-MAKING

Emphasis	Sample Mean	Std. Dev.	Nonformal Planners Mean	Formal Planners Mean	Prob.
Scan Firm's Competitive Environment	3.14	.87	3.21	3.15	.32
Formulating Goals and Targets to Be Achieved	3.32	.78	3.07	3.69	.001
Selecting Distinctive Competencies in Order to Gain a Competitive Advantage	3.25	.79	3.16	3.41	.01
Determining Authority and Influence Relationships Among Firm's Departments	2.39	.98	2.18	2.71	.001
Deploying of Financial and Physical Resources	3.38	.85	3.27	3.52	.02
Monitoring and Controlling the Implementation of Strategies	3.15	.84	2.99	3.48	.001

Table 3
ENVIRONMENTAL SCANNING
FREQUENCY OF NEW COMPETITORS AND MAJOR CHANGES IN LAST 5 YEARS

Environmental Change	Sample Mean	Std. Dev.	Nonformal Planners Mean	Formal Planners Mean	Prob.
New Competitors	20.14	77.52	18.05	24.00	.31
New Foreign Competitors	1.35	6.77	1.11	1.20	.46
Frequency of Major Changes	2.57	1.64	2.21	2.42	.14

ence in scanning based on size or planning formality. In order to test further the difference in environmental scanning, respondents were asked to identify the number of new competitors entering their market in the last five years and the number of major changes occurring in their industry in the last five years. No attempt was made to assess whether these environmental changes were perceived as opportunities or as threats. Table 3 shows that there were no significant differences in the two groups' perception of these environmental changes.

Strategy Options

Table 4 shows the results of testing the differences between the formal and non-formal planners on the importance of various strategic options to their success. There were significant differences on seven of the choices with the formal planners placing higher reliance on both cooperative and competitive strategies to ensure their continued success. On the cooperative strategies, formal planners placed significantly greater emphasis than non-formal planners on the following strategies: domestic and foreign cooperative alliances to enter new markets, foreign cooperative alliances to develop new products, and equity investment by a domestic or foreign firm.

If the scores for each group on each option are ranked, it is found that both groups ranked the strategies in a similar fashion. Extending current products into new markets by themselves was ranked as the strategy that both groups relied on the most and second was the strategy of developing new products by themselves. The least important strategies for both groups were the strategies of foreign cooperative alliances to develop new products and equity investment by foreign firms. This conforms with Chaganti, Chaganti, and Mahajan (1989) who suggest that altering product scope is one of the most profitable strategies for small businesses.

Since the rankings of the strategic options are about the same, but significant differences exist in the amount of emphasis placed on most options by formal and non-formal planners, the conclusion is drawn that formal planners emphasize a wider variety of strategies than do the non-formal planners. They view a large number of cooperative and competitive strategies as instrumental to their success.

Financial Performance

The formal and non-formal planners showed no significant differences on performance measures of return on equity or return on assets. However when the growth rate of sales was considered, there was a significant difference ($p = .05$) with the formal planners showing a mean growth rate of 1.77 where the non-formal planners had a rate of 0.75. The results support the findings of Robinson and Pearce (1983) which showed no significant difference in financial performance of planners vs. non-formal planners. However, the planners' growth rate in sales was twice that of the non-formal planners, despite the fact that the age of the groups did not differ significantly.

DISCUSSION

The results of this study indicate that there are significant differences between formal planners and non-formal planners in their emphasis on dimensions of strategic decision-making as well as in the range of strategic choices made. This lends further support to the premise that it is the process of planning, not only the plan, that is important

Table 4
COOPERATIVE AND COMPETITIVE STRATEGIES

Strategy	Sample Mean	Std. Dev.	Nonformal Planners Mean	Formal Planners Mean	Prob.
Extend Current Products to New Markets by Self	3.34	1.44	3.09	3.45	.06
Develop New Products by Self	1.81	1.26	2.24	2.63	.05
Export	1.31	.86	1.24	1.58	.03
Domestic Cooperative Alliances to Enter New Markets	2.54	1.55	1.47	2.02	.001
Foreign Cooperative Alliances to Enter New Markets	1.76	1.17	.97	1.51	.001
Domestic Cooperative Alliances to Develop New Products	1.22	.60	1.55	1.62	.34
Foreign Cooperative Alliances to Develop New Products	1.55	1.13	.99	1.15	.05
Equity Investment by Foreign Company	1.16	.61	.93	1.15	.01
Equity Investment by Domestic Company	1.41	.98	1.13	1.52	.001

in evaluating the outcomes of strategic planning (Bracker and Pearson 1986).

It appears that small businesses which adopt a more formal planning process will place greater emphasis on improving the quality of the strategic decision-making process. Although environmental scanning may be done adequately without reliance on a formal planning process, the elements of goal formulation, developing distinctive competencies, determining authority relationships, deploying resources, and monitoring implementation receive more effective attention when small businesses engage in formal planning. In addition, the small business owner develops a more complete knowledge of the strategic management issues facing the firm.

Another outcome of formalized planning by the small businesses surveyed was that a wider range of strategies was viewed as important to formal planners' success. This could indicate that as a result of the formal planning process, small firms consider and adopt more strategies. For

example, formal planners voiced a greater interest than nonformal planners in cooperative strategies, a set of strategies not frequently adopted by small firms (D'Souza and McDougall 1989). Thus, performance of small firms may be positively affected *if* the planning process enhances the type of strategic options they consider.

While this study supports the finding of Robinson and Pearce (1983) that there is no significant difference in terms of return on equity and return on assets between small firms with formal and nonformal planning, it did demonstrate significant differences between the two groups on growth rate of sales. Since firms by definition were older than four years, and formal and non-formal planners were approximately the same age, age differences did not seem to be responsible for growth rate differences.

These findings, similar to Bracker and Pearson's results (1986), indicate that the rate of growth, not the rate of return, may be the important variable in assessing the financial impact of planning.

Data collection through a structured interview limited the depth of information received. Additional probing in areas such as environmental scanning and the formality of short-term planning efforts would enrich future studies. Another limitation was the lack of financial information that was not provided by as many firms or over as long a time period as might have been desired. Also, this was a sample crossing many industry subgroups. While it was possible to group the respondents' companies into broad industry types (e.g., manufacturing, retailing, etc.), it was not possible to control for narrower industry-specific effects. Studying the relationship between planning formality and strategic choice within industries would be an interesting extension of this study. Further research on the relationship between strategy content, strategy process, and performance of small firms within a common industry would allow specific consideration of the broad based, general findings of this project.

This study advances the research on planning for small businesses by developing our understanding of the benefits formal planning provides in the management of the firm. Further, it indicates that as small business owners adopt more formal planning processes, there is a significant increase in the thoroughness of their decision process, the breadth of strategic options emphasized in their business activity, and their overall performance as measured by growth in sales. Thus, small business owners may realize a competitive advantage through the use of formal planning procedures to enhance their strategic management process.

REFERENCES

Bracker, J.S., B.W. Keats, and J.N. Pearson (1988), "Planning and Financial Performance among Small Firms in a Growth Industry," *Strategic Management Journal* 9, 591-603.

____ (1986), "Planning and Financial Performance of Small, Mature Firms," *Strategic Management Journal* 7, 503-522.

Camillus, J.C. (1975) "Evaluating the Benefits of Formal Planning," *Long Range Planning* 8 (3), 33-40.

Chaganti, R., R. Chaganti, and V. Mahajan (1989), "Profitable Small Business Strategies under Different Types of Competition," *Entrepreneurship Theory and Practice* 13 (3),21-35.

Dilts, J.C., and G.E. Prough (1989), "Strategic Options for Environmental Management: A Comparative Study of Small vs. Large Enterprises," *Journal of Small Business Management* 27 (3), 31-38.

D'Souza, D.E., and P.P. McDougall (1989), "Third World Joint Venturing: A Strategic Option for the Smaller Firm," *Entrepreneurship Theory and Practice* 13 (4), 19-33.

Fredrickson, J.w. (1984), "The Comprehensiveness of Strategic Decision Processes: Extension, Observations, Future Directions," *Academy of Management Journal* 27 (3), 445-466.

___ (1986), "An Exploratory Approach to Measuring Perceptions of Strategic Decision Process Constructs," *Strategic Management Journal* 7 (5),473-483.

Fulmer, R.M., and L. Rue (1974), "The Practice and Profitability of Long Range Planning," *Managerial Planning* 22 (6),1-7.

Grinyer, P., S. Al-Bazzaz, and M. YasaiArdekani (1986), "Thward a Contingency Theory of Corporate Planning: Findings in 48 U.K. Companies," Planning on Financial Performance in Small Organizations," *Strategic Management Journal* 4, 197-207.

___ (1984), "Research Thrusts in Small Firm Strategic Planning," *Academy of Management Review* 9, 128- 137.

(1988), "Planned Patterns of Strategic Behavior and Their Relationship to Business-Unit Performance," *Strategic Management Journal* 9, 43-60.

Shuman, J.C., G. Shaw, and J. Sussman (1985), "Strategic Planning in Smaller Rapid Growth Companies," *Long Range Planning* 18 (12), 48-53.

Kudla, R.J. (1980), "The Effects of Strategic Planning on Common Stock Returns," *Academy of Management Journal* 23, 5-20.

Mason, R.O., and I. Mitroff (1981), *Challenging Strategic Planning Assumptions:Theory, Cases and Techniques*.

New York: Wiley. Mintzberg, ,H. (1991), "The Entrepreneurial Organization," in *The Strategy Process*, ed. H. Mintzberg and J.B. Quinn, Englewood Cliffs, N.J.: Prentice-Hall,604-613.

Naffzig~r, D.W., and Kuratko, D.F. (1991), ." An Investigation into the Prevalence of Planning in Small Business," *Journal of Business and Entrepreneurship* 3 (2),99-109.

Pearce, J.A., E.B. Freeman, and R.B. Robinson (1987), "The Tenuous Link between Formal Strategic Planning and Financial Performance," *Academy of Management Review* 12, 658-675.

Ramanujan, V., and N. Venkatraman (1987), "Planning System Characteristics and Planning Effectiveness," *Strategic Management Journal* 8, 453-468.

Ramanujan, V., N. Venkatraman, and J.C. Camillus (1986), "MultiObjective Assessment of Effectiveness of Strategic Planning: A Discriminant Analysis Approach," *Academy of Management Journal* 29 , 347-372.

Rhyne, L.C. (1986), "The Relationship of Strategic Planning to Financial Performance," *Strategic Management Journal* 7, 423-436.

Robinson, R.B., J. Logan, and M. Salem (1986), "Strategic Versus Operational Planning in Small Retail Firms," *American Journal of Small Business* 10 (4),7-16.

Robinson, R.B., and J.A. Pearce (1983), "The Impact of Formalized StrategicSmeltzer, L.R., G.L. Fann, and V.N. Nikolaisen (1988), "Environmental Scanning Practices in Small Business," *Journal of Small Business Management* 26 (3), 55-62.

Wood, D.R., and R.L. LaForge (1979), "The Impact of Comprehensive Planning on Financial Performance," *Academy of Management Journal* 22 , 516-526.

___ (1981), "Toward the Development of a Planning Scale: An Example from the Banking Industry," *Strategic Management Journal* 2, 209-216.