Business Planning in Successful Small Firms

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Strategic planning has been widely publicized during the last decade, but what has been accomplished by this management activity in smaller, high-growth firms? Business plans have been widely recommended for start-up funding, but we have noted additional uses for business plans in practice. This article reports methods and results of strategic planning and written business plans in high-growth 'INC. 500' firms. In spite of a variety of obstacles, over half of the firms conduct strategic planning on a regular basis. Results of this study show that fast-growth firms develop written business plans as a product of strategic planning, mainly by five key management personnel. Written business plans are used more for internal management purposes than for start-up funding. Finally, the completion of strategic planning is positively associated with a firm's profitability. Based on survey and interview data, this article describes a four-phase model to help ensure effective integration of strategic planning processes and the resulting written business plans.

How do successful high-growth companies use strategic planning to improve company performance? Do successful companies document strategic planning processes with written business plans? In addition to using the business plan for start-up funding, are there unrecognized benefits from using business plans? These and similar questions prompted the authors to investigate the use of strategic planning and the resulting written business plans by high-growth businesses—the 'INC. 500'. Both survey and interview data were gathered to help find helpful answers to these questions.

For two decades, strategic planning gained popularity both in practice and in the literature. SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis became a widely used approach to assessing market and environmental conditions impacting a firm's strategic plan. However, in recent years many critics have expressed concern that 'form became more important than substance' in many firms.

Several studies have sought to identify planning characteristics, practices, impacts on success, and obstacles to planning. For example, Robinson et al., (1984), studied the relationship between a small firm's stage of development and its strategic planning practices. Their findings suggest that a company's stage of development may play a contingent role in terms of strategic planning intensity, but that basic planning activity has a significant impact on small-firm performance.

In the mid-1980s, Sexton and Van Auken conducted a longitudinal study of strategic planning among small firms in Texas, analyzing strategic planning and performance factors such as sales level. They reported a link between strategic planning and success over time but indicated that strategic planning was sporadic and temporary among small firms. More recently, Armstrong presented additional evidence in favour of formal—as opposed to informal—strategic planning and further indicated the need to study which planning techniques are most useful and under what circumstances.

In 1987, Ramamurthy and Venkatraman found that resistance to planning and resources for planning had the dominant impact in strategic planning effectiveness. Another study identified lack of time and lack of skills as the dominant reasons for not engaging in planning. Other researchers focused on relationships between planning and accounting indicators, such as return on investment and return on equity.

A few studies have included the use of business plans, but typically only as a small part of an overall strategic-planning focus. For instance, Shuman, Shaw, and Sussman's study of strategic planning (1985) found that 49 per cent of the INC. 500 firms that responded to their early-1980s survey developed a business plan for start-up purposes.