

: Planning and Financial Performance of Small, Mature Firms

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Summary

This article develops a classification scheme of planning process sophistication in small firms, categorizes small firms according to planning process sophistication, and examines the relationship between planning process sophistication and the financial performance of a select group of small, mature firms. The study overcomes several methodological shortcomings of prior research on strategic planning and firm performance. Multivariate analysis of variance is used to identify statistically significant differences between the financial performance data of firms that employ structured, strategic plans and those that do not. The results confirm previous research on strategic planning and financial performance. Finally, recommendations are made for future research.

Small businesses—those with annual sales of less than \$5 million—are the spark of the U.S. economy. During the past 10 years they have generated more than 3 million new jobs, while the 1000 largest American firms recorded virtually no net gain in employment. Although they comprise almost 97 percent of all U.S. businesses, the small business firm's impact on the U.S. economy is frequently underestimated. For example, an estimated 100 million Americans rely directly or indirectly on small firms for their livelihood. According to Siropolis (1977), small firms innovate when others are content to sit on their hands; they cut prices when others follow the price leader; and they reject suggestions from competitors to set one price.

The entrepreneurial spirit housed in its small firms is perhaps the greatest advantage the United States has in the highly competitive world marketplace. Neither the European countries nor Japan has the history of small business people starting their own firms or the American record for developing revolutionary new products. Schollhammer and Kuriloff (1979) feel that the natural habitat of entrepreneurs is small business. Entrepreneurs are rarely found in large, mature industries.

However, venturing into small business is risky. In 1983 more than 31,000 businesses failed in the United States, the fourth highest failure rate in U.S. history (Dunn & Bradstreet, 1984). The estimated average mortality rate of U.S. businesses is more than 10,000 a year (Vance, 1983), with the majority of reported failures being small businesses. Furthermore, numerous small firms that fail are financed entirely through personal savings; since they owe nothing to creditors, their failure is never officially recorded.

Numerous studies that examined successful and unsuccessful small businesses have found that a lack of planning or inadequacies in a firm's planning process may contribute to a firm's failure, while planning processes that are well-developed, soundly implemented, and properly controlled contribute to a firm's success (Robinson, 1980; Sanford, 1982;

Timmons, Smallen and Dingee, 1977; Tootelian and Gaedeke, 1978; and Vozikis and Glueck, 1980).

Unfortunately, the majority of research on small firm strategic planning focuses on firms less than 5 years old. The short operating time-frames of these businesses may lead to inadequately developed strategic planning systems. This leads researchers to make prescriptions for all small firms based on a sample that differs significantly from older, more mature small businesses. Furthermore, prior research fails to address the varying degrees of sophistication of planning processes employed by small firms. An absence in the literature of a continuum for planning process sophistication may account for Sexton and Van Auken's (1982) perception that researchers are too rigid in operationalizing strategic planning in small firms.

Therefore, the objective of this study is: (1) to develop a classification scheme for the planning process sophistication of small firms; (2) to categorize small firms according to their level of planning sophistication; (3) to examine the relationship between planning sophistication and financial performance of a select group of small, mature firms; and (4) to overcome some of the methodological shortcomings of prior research on strategic planning and firm performance. This study builds on the strengths of prior empirical works on strategic planning in large, small, and entrepreneurial firms. It also attempts to deal with methodological problems found in past studies.

The researchers hypothesize that three primary factors contribute to financial performance in small, mature firms. Two of these factors are the managerial orientation of top management and the sophistication of the strategic planning process they employ. The third primary variable, external environment, may also have a significant effect on the firm's planning and performance. However, this effect is reduced by limiting the domain of the study in the areas of firm size (small), industry classification (mature service), geographic location (southeast region), ownership characteristic (owner/manager), and managerial orientation (opportunistic entrepreneur). The residual effect of the environment on the variables under evaluation in this study is not a primary focus of the study. Further environmental analysis is beyond the scope of this work.

Strategic planning literature

Numerous research articles, texts, papers, and monographs present instructions, procedures for strategic planning, design parameters, and methodologies for integrating organizational planning systems (e.g. Lorange and Vancil, 1977; Leontiades, 1980; Lorange, 1980; Glueck, 1980; and Grant and King, 1982). These works provide insight into the problem of designing the structural and technical features of the strategic planning system.

Robinson and Pearce (1984), in a comprehensive review of the research thrusts in small firm strategic planning, identified four basic research thrusts:

The research that has addressed strategic planning in small firms can be divided into four major thrusts: (1) to confirm empirically the presence or absence of strategic planning practices; (2) to provide empirical evidence of the value of strategic planning; (3) to examine directly or indirectly the appropriateness of specific features of the planning 'process'; and (4) to examine empirically the 'content' of strategies in small firms (p. 129).

They believe that the second thrust, the value of strategic planning, should be a component of all future planning research. This will aid in making judgements about the value of

planning process and content decisions. A key finding of the Robinson and Pearce (1984) article is that most small firms don't plan. Future research in this area needs to follow their guidelines and determine if definitional variations contribute to the finding that many firms don't plan. As Robinson and Pearce (1984) state 'it must be ascertained that methods of operationalizing planning are both consistent and logically linked to small firm planning activity' (p. 135).

Almost all prior studies on strategic planning and financial performance of small firms have dealt with manufacturing and new firms. These studies have been characterized by short time horizons and the use of a large firm planning orientation to operationalize the planning construct. Clearly, the strategic planning processes of small firms differ from those of large firms. Small, new ventures are concerned with adaptation issues, while mature firms are more concerned with integration issues. This difference leads to an entirely different orientation to strategic action. New ventures are fighting for their lives, while many mature small firms are trying to achieve higher levels of efficiency to fuel limited growth in their low-growth industries. To date no study has used a strategic planning orientation germane to small businesses.

Empirical works that quantify the relationship between the strategic planning process and actual organizational financial performance are rare (Rhyne, 1983; Shrader, Taylor and Dalton, 1984; and Wood and LaForge, 1979). According to Bracker and Riggs (1982), this lack of research may be attributed to:

1. The inability to obtain meaningful financial data and strategic and operational planning process data.
2. The nature and complexity of large organizations that make accurate descriptions of the strategic and operational planning process hard to validate and replicate.
3. The lack of sophistication in experimental design and weak statistical procedures to test hypotheses, resulting in less than optimal research results.
4. The lack of a significant micro or limited domain theory that can be successfully operationalized to describe strategic planning processes (p. 174).

Several researchers (Hofer, 1976; Datta, 1980; Schendel and Hofer, 1979) have found that the most frustrating problem in the strategic planning area is not the number of variables that require mathematical manipulation but the non-availability of key data.

The non-availability of key financial data and the danger of non-homogeneity of data as described by Bass (1974) have contributed to the present weakness of planning theory and to the lack of methodologically sound research that investigates the planning/financial performance interface. Past research on the relationship between planning and financial performance in large and small firms is fragmented. A number of empirical studies (Ansoff *et al.*, 1970; Herold, 1972; Kager and Malik, 1975; Rhyne, 1983; Robinson, 1980; Robinson, Vozikis and Pearce, 1981; Thune and House, 1970; Unni, 1981; and Wood and LaForge, 1979) found significant positive relationships between planning and financial performance. The empirical works of other researchers (Fredrickson and Mitchell, 1982; Kudla, 1980; Leontiades and Tezel, 1980; Lindsay *et al.*, 1982; and Robinson and Pearce, 1983) failed to find positive relationships between planning and financial performance. Furthermore, in the cases of Lindsay *et al.* (1982) and Wood and LaForge (1979), no consistent relationship between planning and financial performance was found.

An examination of empirical research on this relationship uncovers numerous weaknesses, regardless of the study's orientation from methodological and practical standpoints. These

problems include small sample sizes, short time-frames, failure to measure the degree of congruence of the planning process to comprehensive strategic management models, ignoring the role of the CEO or entrepreneur in the process, inappropriate and non-robust statistical procedures, non-homogeneity of data, and inappropriate financial performance measures. Other major shortcomings of past research are failure to distinguish between entrepreneurs and small businesses or between young and old firms; and inattention to firm size and the dynamic or static nature of the firm's environment.

Entrepreneur orientation

Not all small firms are similar. They differ in management style and sophistication, in stage of development, and in performance. Many researchers and practitioners assume that entrepreneurs are a homogeneous group and that the term 'entrepreneur' refers to one type of individual. However, numerous types of small firms and entrepreneurs are identified in the literature (e.g. Carland *et al.*, 1984; Cooper, 1979; Hosmer, 1977; Liles, 1974; Smith, 1967; and Vesper, 1979) for differentiating small business owners/managers. Prior empirical research on planning and financial performance failed to identify entrepreneurial type, which may account for the confounding findings. Cooper (1979) points out that 'mom and pop' firms are the most numerous, but they have a limited economic impact. Furthermore, it may be difficult to investigate this type of firm due to their owner's lack of business sophistication, narrow cultural background, and limited social involvement (Cooper, 1979; Hornaday and Bunker, 1970).

Carland *et al.* (1984) claim that the entrepreneurial portion of the small business population wields a disproportionately high influence on the U.S. economy. Therefore one of the most fertile grounds for management research is entrepreneurs and their firms. As Carland *et al.* (1984) point out, it is critical to distinguish entrepreneurs from non-entrepreneurial managers and small business owners. They define an entrepreneur as:

an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterized principally by innovative behavior and will employ strategic management practices in the business (p. 358).

Smith (1967), in an earlier typology, identified an entrepreneurial type (opportunistic) who perceives and reacts to a broad range of environmental impacts, exhibits breadth in education and training, has high social awareness and high social involvement, is flexible and confident in his/her ability to deal with economic and social environments, and exhibits an awareness and orientation toward the future. The opportunistic entrepreneur plans for growth. He sees industry and the business world as open-ended. For example, he does not feel the only way his company can grow is by taking sales away from a competitor. Rather, he perceives many paths that lead to company growth. Hornaday and Bunker (1970) confirmed the value of the distinction. They found the opportunistic entrepreneur to have a broader educational background, greater social involvement, and a more aggressive approach to long-range planning. Still (1974) found the opportunistic entrepreneur to be more aggressive with regard to formality of planning behavior. Furthermore, a study by Smith and Miner (1983) presented limited support for a relationship between the opportunistic entrepreneur and the motivation-to-manage construct. Susbauer (1979) concluded that if the purpose of policy research is to effect change in the performance of firms, policy research on small enterprises should concentrate on those classes of firms that are most easily identified, manipulated and evaluated. Pursuant to this call, opportunistic entrepreneurs who own and manage small businesses are an ideal population to study.

Structured strategic plans (SSP). Formalized, written, long-range plans covering the process of determining major outside interests focused on the organization; expectations of dominant inside interests; information about past, current, and future performance; environmental analysis; and determination of strengths and weaknesses of the firm and feedback. Typically 3–15 years in nature.

Structured operational plans (SOP). Written short-range operation budgets and plans of action for current fiscal period. The typical plan of action would include basic output controls such as production quotas, cost constraints, and personnel requirements.

Intuitive plans (IP). These informal plans are developed and implemented based on the intuition and experience of the owner of the firm. They are not written and are stored in the memory of the firm's owner. They are of a short-term duration, no longer than 1 year in nature. They depend on objectives of the owner and the firm's present environment.

Unstructured plans (UP). No measurable structured planning in the firm.

Small firm planning process sophistication

Robinson (1980), in a comprehensive investigation of planning and financial performance in small firms, suggests that the development of a theory of strategic planning based on large firms is inappropriate for small businesses. Unfortunately, prior studies have failed to develop and operationalize a procedure to categorize and measure strategic planning process sophistication in small firms. A content analysis of the literature on planning practices of small and entrepreneurial firms reveals eight distinct components that constitute their planning process: objective setting; environmental analysis; strengths, weaknesses, opportunities and threats (SWOT) analysis; strategy formulation; financial projections; functional budgets; operating performance measures; and control and corrective procedures.

Based on these eight components, four distinct levels of sophistication in the strategic planning process were identified: structured strategic plans, structured operational plans, intuitive plans and unstructured plans (Table 1). These planning types were formulated in accordance with the procedure employed by Rue (1973), and Lindsay *et al.* (1982).

THE STUDY

The present study overcomes prior methodological and practical problems by using robust statistical procedures and financial business performance data over a 5-year time-frame. Four levels of planning sophistication were geared specifically to small firms, and the domain of the environment was limited to control for confounding influences; these included type of entrepreneur (opportunistic), industry, firm size, geographic location, and ownership characteristics. This study includes a sample of opportunistic entrepreneurs in a specific service industry. Obtaining a matching sample of opportunistic entrepreneurs in another industry or of craftsman entrepreneurs (Smith, 1967) in the same industry was beyond the study's scope. In spite of these limitations, this study will benefit the development of a contingency theory on planning in small businesses.

The dry cleaning industry was selected because it consists of many relatively homogeneous, small, mature firms. Firms are considered mature if demand is growing in real terms less than 10 percent, if products or services are familiar to a vast majority of users, and if the technology and competitive structure of the industry are reasonably stable (Zeithaml and Fry, 1984). Dry cleaners easily conform to these criteria. Today

approximately 46,500 U.S. dry cleaners employ process technology, in their operating systems, that has changed little in the past 70 years. Further, due to franchising, many firms employ identical process technologies (e.g. Martinizing).

However, a few firms in the dry cleaning industry exhibit significant management sophistication with regard to firm operation and financial performance. These individuals may lend themselves to an opportunistic entrepreneurial orientation. In an attempt to control for differences in the strategic orientation of dry cleaning firms, the Southeastern Fabricare Association (SEFA) was selected as the appropriate industry subgroup for this study. SEFA is a restricted association due to its bylaws and high association membership fee. It tends to attract members of the industry who are oriented toward development and planned growth of their enterprises. Therefore, based on the findings of Smith (1967) and Hornaday and Bunker (1970), concerning opportunistic entrepreneurs, it is hypothesized that SEFA members may display varying degrees of planning process sophistication.

METHOD

Research hypotheses

This study explores planning process sophistication and financial performance. One may conclude from prior research that the level of sophistication is a key determinant of financial performance. Furthermore, one would expect firms that have longer planning histories to out-perform firms with shorter planning histories. When examining service firms, firm size would not be an integral factor in determining financial performance, due to a lack of economies of scale. Young firms seeking to establish their presence in the marketplace may be predisposed to newer planning techniques that will contribute to their success (Buchele, 1967; Still, 1974). With the current proliferation of strategic planning knowledge and the resistance of older firms to changing their historical ways of doing business, one may expect younger firms that have successfully overcome the start-up hurdles of a new business to employ more sophisticated planning techniques and, thus, to financially out-perform older firms. Therefore, four research hypotheses have been developed to confirm the above hypothetical statements:

Hypotheses

1. *No significant difference exists between the level of planning sophistication employed in opportunistic entrepreneurs' firms and their financial performance data.*
2. *No significant difference exists in financial performance data between older, opportunistic entrepreneurs' firms (more than 9 years old) and the younger, opportunistic entrepreneurs' firms.*
3. *A significant difference exists in financial performance data between large, opportunistic entrepreneurs' firms (more than \$400,000 gross revenue) and the smaller, opportunistic entrepreneurs' firms.*
4. *No significant difference exists in financial performance data between opportunistic entrepreneurs' firms with long planning histories (more than 5 years) and opportunistic entrepreneurs' firms with short planning histories.*

Participants

The sample consisted of 555 owners/managers of dry cleaning businesses who are members of SEFA. Members received a questionnaire (Bracker, 1982) at their place of business and

reported financial performance data over a 5-year time-frame (1977-81). According to Brawley (1982), Bettis (1981), and Galbraith and Nathanson (1978), 5 years is an adequate time period to evaluate change and performance in small firms. Information was gathered concerning the type of entrepreneur (Smith, 1967), sophistication of their strategic planning process, size, age, and planning history.

Questionnaire respondents numbered 265, a 47 percent response rate. Of this total, 188 firms (71 percent) were usable. Usable participants had been in business at least 5 years, reported accurate financial performance data in accord with association records, and were of the opportunistic entrepreneur orientation. Of non-usable responses, 46 owners/managers failed to conform to the opportunistic orientation; nine of these responses were indiscernible. Twenty of the remaining 31 non-usable responses had not been in business 5 years, while the remaining 11 firms failed to complete the questionnaire adequately. The average age of subjects' firms was 15.2 years, and the average number of employees was 20.78. Seventy-nine individuals reported more than \$400,000 a year in gross firm revenue.

Survey instrument

The 23-question survey instrument was based on the four levels of planning sophistication in small businesses and Smith's (1967) entrepreneurial classification.¹ With the assistance of the Southeastern Fabricare Association board and staff members, the survey instrument was adapted to dry cleaning firms. The selection of firm size (small if revenue is less than or equal to \$400,000 annually), and firm age (young if established less than or equal to 9 years ago) were based on SEFA board member recommendations. Colleagues reviewed the questionnaire for construct validity. Several items were rewritten, and others were eliminated based on comments by colleagues. In addition, unstructured and structured interviews of a select group of cleaners as to the applicability of the questionnaire, as well as a pilot test, were undertaken before the final instrument was developed.

Procedure

Potential participants were advised of the nature of the study before it took place. They were mailed the initial questionnaire along with an appeal letter from SEFA's president. A second questionnaire was sent to all non-respondents 21 days after the first mailing. Fourteen calendar days later, a third follow-up appeal letter and a survey questionnaire were sent to all non-respondents. Three calendar days after the third mailing, all non-respondents were called and encouraged to complete the survey. Non-respondents who indicated they would not respond were asked to indicate why. Twenty-one calendar days after the calling of non-respondents ended, a proportioned sample from each of the three mailings was called and asked to complete a second, duplicate questionnaire in order to assure the accuracy and stability of the planning and entrepreneurial classifications.

Measures

The independent and dependent variables were obtained from the questionnaire; while a multiple cut-off classification system similar to Lindsay *et al.* (1982) and Rue's (1973) was used to operationalize planning sophistication. McCain's (1982) scoring guide for

¹ The complete questionnaire and scoring guides are available from the authors.

classifying entrepreneurial types was utilized to identify opportunistic and craftsmen entrepreneurs. The guide contains 14 questions in four major areas: breadth of education, social awareness and involvement, ability to deal with economic and social environment, and time orientation. Each is scored 1, 0, or -1, depending on whether the response indicates positive, neutral, or negative orientation towards the questions. A positive or negative response is indicative of the opportunistic and craftsman entrepreneurs, respectively. Various responses to other questions provided descriptive data.

The accurate description of performance is essential to measuring success within organizations. The comparison of inter-industry performance is confounded by the utilization of generic performance measures. Furthermore, inappropriate financial performance measures within an industry impede the assessment of firm success. Therefore, to lessen the confounding effects of generic performance measures, this study's dependent variables were developed from performance criteria recommended by the SEFA board, accountants in the dry cleaning field, and published industry data sources.

Financial performance data that served as dependent variables were: (1) revenue growth, (2) entrepreneurial compensation growth, and (3) labor expense/revenue ratio growth. Revenue growth and entrepreneurial compensation growth were the absolute annual percentage growth rates during the time-frame examined. Entrepreneurial compensation was determined by summing the firm's net profit before taxes and owner/manager compensation. The labor expense/revenue ratio growth was calculated as the absolute annual labor expense as a percentage of sales during the time-frame examined.

Independent variables were size of firm, age of firm, length of planning history, and sophistication of planning, measured by direct classification into one of four categories: structured strategic planners, structured operational planners, intuitive planners, and unstructured planners.

Data analysis

A one-way multivariate analysis of variance, followed by Scheffe's multiple comparison technique, was undertaken to analyze Hypothesis 1. Furthermore, univariate tests (ANOVA) were employed on each dependent variable. Hypotheses 2, 3, and 4 were analyzed using the Multivariate T Test (Hotellings T), followed by a univariate (ANOVA). Multivariate analysis of variance (MANOVA) is a statistical technique that can be used to study the effect of independent variables measured on two or more dependent (in this case, three) variables simultaneously. MANOVA is used when the independent variables are non-metric, nominal, or ordinal in nature.

According to Hair *et al.* (1979) MANOVA allows simultaneous testing of all variables (dependent and independent) and consideration of the various interrelationships among them.

Whereas ANOVA tests for differences among groups by employing the appropriate sums-of-square, MANOVA uses the sums-of-squares cross-products (SSCP) matrices. Thus, the variance between groups is determined by partitioning the total SSCP matrix, then carrying out the appropriate tests of significance. Similar to the F -ratio of the between-group mean square to the within-group mean square in ANOVA, our multi-variate F -ratio is merely a generalization to a ratio of the within-groups and total-groups dispersion (variance) matrices which tests for equality among treatment groups based on their respective centroid (vector means) (p. 127).

Although MANOVA can provide a means for rejecting the overall null hypothesis and accepting the alternative hypothesis that the independent sample means are not all equal, it does not specify where the significant difference lies. To adequately analyze this study's data, *a posteriori* multiple comparison test on planning levels and univariate tests (ANOVA) on individual dependent variables must be undertaken. Multiple *t*-tests are not appropriate for testing the significance of differences between the means of paired groups when a significant *F*-ratio is obtained. The probability of Type I error (rejecting the null hypothesis when it is true) increases with the number of inter-group means that are tested for significance.

Winer (1971) has contrasted *post hoc* or multiple-comparison tests of significance between paired means as to power. The five tests are: (1) Scheffe's test (2) Tukey's honestly significant difference (HSD) method, (3) Tukey's extension of the Fisher least significant difference (LSD) approach, (4) Duncan's multiple range test, and (5) the Newman-Keuls test.

Winer (1971) concluded that the Scheffe test is the most conservative with respect to Type I error. He rank orders the others as follows: Tukey HSD, Tukey LSD, Newman-Keuls, and Duncan. He further states that:

If the meaningful comparisons are relatively few in number and are planned before the data are obtained, the *F* test associated with individual components of variation should be used. This type of comparison is called an *a priori* comparison in contrast to comparisons made after inspection of the experimental data. The *a priori* type is always justified whether or not the overall *F* is significant (p. 196).

The use of Scheffe's test in multivariate mode will ensure the robustness of the data analysis.

Morrison (1976) also lends support to the method of analysis used in this study. He points out that in the multivariate model one would like to determine which responses or response treatment combinations may have led to the rejection of the null hypothesis. Multiple comparison in the multivariate analysis of variance accomplishes this.

According to Hollenbeck (1978), reliability is a complex measurement issue that encompasses both accuracy and stability of measures. A major weakness of prior planning research is a failure to address the accuracy and stability of planning classifications. The accuracy and stability of the planning classification procedure and entrepreneurial type will be verified by employing a test/re-test procedure, Cohen's Kappa (1960). Cohen (1960) developed a statistic (Kappa) to measure the degree of agreement between subjects on the nominal scale. According to Fleiss (1971), Kappa incorporates a correction for the extent of agreement expected by chance. It is also useful when all disagreements are equally serious, and the relative seriousness of different kinds of disagreement can be specified.

RESULTS

Hypothesis 1 (Table 2) was rejected. A statistically significant difference existed between level of planning sophistication and financial performance in opportunistic entrepreneurs' firms. The univariate test revealed two sources (at the $p < 0.01$ level) of this overall significant difference: revenue growth and entrepreneurial compensation growth.

Scheffe's multiple-comparison technique, employed in a multivariate mode, showed that firms employing structured strategic plans were statistically more effective as measured by financial performance data than firms employing any other type of planning. No significant differences were found among the other planning orientations. However, multiple-comparison tests in the univariate mode led to several interesting findings. With regard to revenue growth, the structured strategic planning orientation significantly outperformed all other planning orientations. Furthermore, no significant differences were found among the other planning orientations. While tests concerning the entrepreneurial compensation growth orientation indicated that firms employing only structured strategic plans outperformed those employing either intuitive or unstructured plans, no differences were found between the structured strategic and operational levels. However, the difference between operational, intuitive and unstructured was not significant and in no instance were findings significant with regard to labor expense/revenue growth.

Hypothesis 2 (Table 3) was rejected. A statistically significant difference in financial performance existed between young and old opportunistic entrepreneurs' firms. Young firms had a change in revenue growth that was 100 percent greater than that of old firms, and an almost 350 percent greater increase in entrepreneurial compensation. Univariate tests confirmed two sources (at the $p < 0.01$ level) of overall significant difference: revenue growth and entrepreneurial compensation growth. However, if the young firms' financial revenue bases were substantially smaller than their old firm counterparts, one would expect the aforementioned findings. Therefore an analysis of the base revenue means of the firms was undertaken. The base revenue means for young and old firms were \$109,000 and \$146,000 respectively. A t -test failed to identify a significant difference in base revenue means.

Statistical analysis of Hypothesis 3 (Table 4) failed to produce evidence that size of firm was a determinant of successful financial performance. However, univariate tests revealed a significant difference with regard to firm size when the dependent variable labor expense/revenue growth was examined.

Hypothesis 4 (Table 5) was rejected. A statistically significant difference existed in financial performance of opportunistic entrepreneurs' firms with long planning histories, compared to opportunistic entrepreneurs' firms with short planning histories. Firms with planning histories greater than 5 years significantly outperformed firms with short planning histories (by more than 125 percent, with regard to change in revenue growth). Univariate tests revealed one source of significant difference (at the $p < 0.01$ level): revenue growth.

The accuracy of planning classifications and entrepreneurial orientations was verified ($Kappa = 0.80 < 0.05$, and $Kappa = 0.93 < 0.05$). The stability of the planning classifications and entrepreneurial orientations was substantiated ($Kappa = 0.93 < 0.01$, $Kappa = 1.0 < 0.01$). In no instance did instability exist in entrepreneurial orientation.

DISCUSSION

Firms that conformed to the structured strategic planning categorization outperformed all other planning categorizations with regard to overall financial performance. The fact that the other three levels of planning failed to discriminate among themselves provides further evidence that the process, not the plan itself, is a key component in performance. This finding is in general agreement with Quinn's (1980) perception of logical incrementalism.

Table 2. Planning sophistication, absolute percentage change in dollars; 1977-81 (Hypothesis 1)

Dependent variables	Independent variables					
	Structured strategic plans	Structured operational plans	Intuitive plans	Unstructured plans	Total	
Revenue growth	137.18	40.61	54.35	42.01	63.71	
Entrepreneurial compensation growth	70.63	39.87	13.54	8.78	28.79	
Labor expense/revenue growth	4.76	9.79	4.10	7.76	6.77	
Number of firms	38	39	42	69	188	
<i>Multivariate test of significance</i>	Value	Approx. <i>F</i>	Hypoth. d.f.	Error d.f.	Sig. of <i>F</i>	
Wilks Lambda	0.79	4.86	9.00	443.09	0.01	
<i>Univariate F-tests with (3,184) d.f.</i>	Hypoth. s.s.	Error s.s.	Hypoth. m.s.	Error m.s.	<i>F</i>	Sig. of <i>F</i>
Revenue growth	262,094.48	1,656,919.56	87,364.82	9004.99	9.70	0.01
Entrepreneurial compensation growth	108,694.97	1,192,453.34	36,231.65	6480.72	5.59	0.01
Labor expense/revenue growth	868.50	104,852.66	289.50	569.85	0.50	0.67
<i>Scheffe multiple range test (multivariate)</i>						
Level of planning <i>F</i> (3,182)						
Structural strategic plans	<i>x</i>					
Structured operational plans	8.30*	<i>x</i>				
Intuitive plans	7.37*	1.38	<i>x</i>			
Unstructured plans	12.44*	1.31	0.48			

* $p < 0.01$

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Table 3. Age—absolute percentage change in dollars; 1977–81 (Hypothesis 2)

Dependent variables	Independent variable—age					Total
	Young (≤ 9 years)		Old (> 9 years)			
Revenue growth		104.51		50.88		63.71
Entrepreneurial compensation		65.86		17.13		28.79
Labor expense/revenue growth		11.44		5.3		6.77
Number of firms		.45		143		188
<i>Multivariate test of significance</i>		Value	Approx. <i>F</i>	Hypoth. d.f.	Error d.f.	Sig. of <i>F</i>
Wilks Lambda		0.90	6.15	3.00	184.00	0.01*
<i>Univariate F-tests with (1,186) d.f.</i>	Hypoth. s.s.	Error s.s.	Hypoth. m.s.	Error m.s.	<i>F</i>	Sig. of <i>F</i>
Revenue growth	98,447.83	1,829,566.22	98,447.83	9787.99	10.05	0.01*
Entrepreneurial compensation						
growth	81,292.64	1,219,855.67	81,292.64	6558.36	12.39	0.01*
Labor expense/revenue growth	1291.98	104,429.18	1291.98	561.44	2.30	0.13

* $p < 0.01$

Table 4. Size—absolute percentage change in dollars; 1977–81 (Hypothesis 3)

Dependent variables	Independent variable—size					Total
	Small ($\leq 400,000$)		Large ($> 400,000$)			
Revenue growth		59.20		74.92		63.71
Entrepreneurial compensation growth		21.17		32.81		28.79
Labor expense/revenue growth		9.17		.79		6.77
Number of firms		134		54		188
<i>Multivariate test of significance</i>		Value	Approx. <i>F</i>	Hypoth. d.f.	Error d.f.	Sig. of <i>F</i>
Wilks Lambda		0.96	2.39	3.00	184.00	0.07
<i>Univariate F-tests with (1,186) d.f.</i>	Hypoth. s.s.	Error s.s.	Hypoth. m.s.	Error m.s.	<i>F</i>	Sig. of <i>F</i>
Revenue growth	9516.79	1,909,497.26	9516.79	10,266.11	0.92	0.33
Entrepreneurial compensation						
growth	1222.46	1,299,925.84	1222.46	6988.84	0.17	0.67
Labor expense/revenue growth	2704.70	103,016.46	2704.98	553.85	4.88	0.02*

* $p < 0.05$

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Table 5. Planning history—absolute percentage of change in dollars; 1977-81 (Hypothesis 4)

Dependent variables	Independent variable—planning history				Total	
	Short (≤ 5 years)		Long (> 5 years)			
Revenue growth	41.36		94.55		63.71	
Entrepreneurial compensation growth	30.94		25.83		28.79	
Labor expense/revenue growth	5.61		8.36		6.77	
Number of firms	109		79		188	
<i>Multivariate test of significance</i>	Value	Approx. <i>F</i>	Hypoth. d.f.	Error d.f.	Sig. of <i>F</i>	
Wilks Lambda	0.92	5.27	3.00	184.00	0.01	
<i>Univariate F-tests with (1,186) d.f.</i>	Hypoth. s.s.	Error s.s.	Hypoth. m.s.	Error m.s.	<i>F</i>	Sig. of <i>F</i>
Revenue growth	129,585.24	1,789,428.81	129,585.24	9620.58	13.46	0.01
Entrepreneurial compensation growth	1195.78	1,299,952.53	1195.78	6988.99	0.17	0.68
Labor expense/revenue growth	346.99	105,374.17	346.99	566.52	0.61	0.43

* $D < 0.01$

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Furthermore, one would not expect, in a stable, mature environment and industry, to find differentiation in the lower levels of planning sophistication with regard to performance.

Since mature firms are most often concerned with efficiency (integration), not adaptation (responding to environmental change), only a sophisticated planning process would accomplish this end. However, if one examined other industries in more dynamic environments and/or earlier stages in the life cycle, one would expect differentiation in performance at all levels, with structured strategic planners outperforming all others. For example, Robinson and Pearce (1983) may have found a significant relationship between planning and performance in small banks if their planning categorization had employed more distinct categories of sophistication. Therefore, entrepreneurs should be cognizant of their increasing level of planning sophistication and its impact on financial performance. Planning sophistication develops incrementally with resources, time and managerial effort, as demonstrated by the revenue growth of firms with long planning histories.

Significant differences were found in the financial performance of young versus old firms. Young firms outperformed old firms, and the following two phenomena may explain why. Investigation revealed that 44 percent of young firms (less than or equal to 9 years old) had long planning histories (greater than 5 years), while 59 percent of old firms had short planning histories. Of the 45 young firms, 17 were structured strategic planners, versus 21 of 143 old firms. Statistical tests in the univariate mode (ANOVA) revealed a statistically significant difference at the $p < 0.05$ level, that young firms with long planning histories outperformed old firms with short planning histories with regard to revenue growth and entrepreneurial compensation.

Additional analysis (ANOVA) failed to reveal a significant difference in financial performance between the young and old firms that utilize structured strategic plans. The results indicate that young firms may be predisposed to the idea of sophisticated planning systems, while older firms are more set in their method of operation and have not implemented structured strategic plans to the same extent. The inclusion of firm age in future research studies should provide valuable insight into its mediating effects on the firms' planning practices.

As expected, no significant differences were found between large and small firms with regard to financial performance. Given the fact that dry cleaning is a service industry, size should not necessarily influence performance. It is apparent that an increase in firm size does not induce greater economies of scale, as is the case in many manufacturing firms. However, firm size is significantly related to the control of labor expense. The large firm's overall labor expense/revenue ratio grew at a 5-year rate of less than 1 percent. In comparison, this ratio in small firms grew at a 9.17 percent rate, indicating an inability on their part to control labor expenses.

This phenomenon may be explained by the fact that as firms become larger, owners turn their attention away from growth and focus on the internal efficiency of their operation, thereby reducing labor expense. Realizing that greater profit cannot be sustained by continued growth, the owner's next logical move is to reduce costs to increase profit. Apparently, owners should focus their attention on techniques to develop greater control of their labor expenses. These include monthly financial volume/poundage comparisons, monitoring employee turnover, and overtime reports.

Firms with a long planning history outperformed firms with a short planning history. This finding is consistent with previous research. It takes time, expertise, and experience to develop and implement a sophisticated strategic planning system within an organization. Owners should not expect instantaneous bottom-line results from a newly developed

planning system. Planning requires a comprehensive commitment by owners, and careful implementation will not overnight transform a company's financial picture. By identifying the length of time a strategic planning system has been in place, future research can highlight the importance of owner commitment, time, and resources necessary to develop an effective planning system.

Firms with long planning histories in the present study have gone through at least two iterations of the planning process. Notwithstanding, one should not conclude from this study's results that two planning iterations will lead to similar increases in financial performance in other industry settings. In dynamic environments more than two or three iterations may be necessary to achieve the desired results.

The results confirm that planning is a continuum of sophistication, from unstructured and intuitive, to structured, formalized and strategic. The distribution of firms across the four levels of planning sophistication were: 38 structured strategic planners, 39 structured operational planners, 42 intuitive planners, and 69 unstructured planners. This distribution confirms the ability of the planning instrument to discriminate among firms according to their level of planning sophistication. The fact that 42 of the respondents were intuitive planners supports O'Neill, Saunders and Hoffman's (1984) assertion that, in many instances, planning exists in a non-formal state.

The results of this study indicate that the level of planning process sophistication has an impact on financial performance, specifically on revenue growth and entrepreneurial compensation growth. However, the ability to minimize labor expense as a percentage of revenue growth was unrelated to the level of planning sophistication. Therefore, owners who are structured strategic planners may not be devoting enough attention to labor cost control as their firms experience rapid revenue and entrepreneurial compensation growth. This finding is further substantiated by the fact that young firms have a high labor expense/revenue growth ratio compared to old firms but significantly outperform them in terms of both revenue and entrepreneurial compensation growth.

IMPLICATIONS FOR SMALL FIRM OWNERS

The technology that drives the dry cleaning industry has changed little during the past 70 years, and the industry growth rate in real terms is relatively flat. Minor, if any, differences exist in the service provided by dry cleaners. However, planning sophistication appears to give some firms a competitive advantage relative to the competition in a stable, mature industry. It is apparent that the process associated with planning provides owners with insights and knowledge, which lead to understanding of the factors that contribute to growth and financial performance.

It has become imperative that entrepreneurs focus their energies on adapting their firm to its environment through strategic planning. The most serious obstacle to the adoption of a sophisticated strategic planning process is not the drain on management time or the problems of doing good planning but the occasionally open opposition of some individuals to change. Furthermore, it may be hypothesized that many entrepreneurs perceive they are sophisticated in their planning process when, at best, their procedures are elementary. Success of a business venture is partially a function of sophisticated strategic planning procedures, while failures may be traced to faulty environmental analysis, lack of commitment of resources, poorly designed implementation procedures, and inadequate control methods.

Many owners/managers will focus their energies on running the day-to-day affairs of their business as efficiently as possible. This is still important, but a strategy to adapt a firm properly to its environment is essential for success. Once insufficient or inadequate strategic planning practices are identified, entrepreneurs can finally begin the task of developing more sophisticated procedures that will assist in the adaptation process. However, the increased complexity of planning practices may force the founder to replace himself with a professional manager; as a result the entrepreneurial orientation of management may be lost.

Do associations such as SEFA attract entrepreneurs who display an external growth orientation, or does being a member of the association foster this outlook? Obviously, industrial associations such as SEFA play a vital role in the development and growth of firms. From a pragmatic perspective it may be very beneficial for small business owners to belong to such associations within their own industry. SEFA may account for the fact that only 36 firms in the study chose a franchise structure. Furthermore, statistical analyses (MANOVA and ANOVA) revealed no significant difference between independent and franchised firms on any performance measure. Franchises may provide no unique production process, product, or information that is not readily available elsewhere.

In some mature service industries it may be relatively easy for entrepreneurs to acquire the necessary technology to operate effectively. In a study by Bracker and Riggs (1983) of the same sample group, with regard to production operation management (POM) techniques, franchised and independent firms that employed certain POM techniques outperformed those that failed to utilize these techniques. Therefore the unique resources and skills provided to a franchise may be of little value once a firm in this industry is mature.

It can only be hypothesized as to why labor expense/revenue growth was not a significant variable in all but one instance (size). One might conclude that large firms utilize capital more efficiently, thus holding down labor costs. Another possible explanation may be the small firm's inability to integrate formal control systems into day-to-day operations. Larger firms, by their very nature, must overcome this problem if growth and profitability are to be sustained.

Even in a mature, stable industry, sophistication in the planning process pays off. The direct involvement of the owner/manager in the strategic planning process enables the firm to develop a framework for anticipating and coping with change. This process also provides a guide for internal consistency of policies and practices. Finally, it permits greater delegation of responsibility and authority and increased reliance on self-control, which facilitates accomplishment of individual goals. Firms that employed structured strategic plans were able to define their business, evaluate internal and external capabilities, and select specific strategies. This helped them achieve significant growth in revenue and entrepreneurial compensation. By understanding one's environment and organization, the allocation of scarce resources is facilitated, thereby contributing to the accomplishment of objectives.

CONCLUSIONS

Prior research that has dealt with new ventures has been flawed at times in its conclusions about planning practice behavior. Making prescriptions for adequate planning practice behavior in all small firms, based on cross-sectional samples of new ventures, is apparently unwarranted. Furthermore, previous research on planning and financial performance in

small firms has failed to adequately address the behavioral orientations of owners/managers. One would not expect 'mom and pop' firm owners to employ sophisticated planning procedures. The very fact that their functional orientation may be based only on survival contributes to their short-range, rigid behavior. This study has shown that a considerable number of opportunistic entrepreneurs display a proactive, long-range orientation with regard to their firms. This finding further substantiates Smith (1967), and Smith and Miner's (1983) belief that opportunistic entrepreneurs plan and manage for growth.

This research has provided an empirically based description of strategic planning practices among a select group of small, mature firms owned and operated by opportunistic entrepreneurs. The study has advanced the theory of planning and financial performance in small firms, alleviating many of the confounding aspects of prior research efforts, such as type of entrepreneur, industry, firm size, geographic location, and ownership characteristics.

Future research in small firm planning and performance should concentrate on the following areas: entrepreneurial orientation and background, the young firm's apparent predisposition to incremental growth of management practices, and the changes a sophisticated planning system has on the small business owner's strategic orientation.

What compels one small business owner to adopt a more formal posture toward strategic management practices than another? Is the entrepreneurial orientation of the owner or industry a major catalyst for sophistication in managerial practice? Could prior business ownership or experience account for differences in behavioral orientation of owners within an industry? What role do industry organizations play in the development of individual firms?

It is hypothesized that young, small service firms in other industry settings may outperform older small firms in the same industry. A possible avenue of inquiry concerns the younger firm's apparent predisposition to incremental growth in management practices. A comparison of predispositions to management development and growth between firm owners is also warranted. In addition, this research should concentrate on the impact of the planning process on managerial behavior.

How the nature of a firm's planning process changes to meet firm objectives from one planning cycle to the next warrants additional investigation. What causes a firm to move up the planning continuum remains unanswered. Clearly, future research efforts that attempt to validate the planning continuum need to examine the historical evolution of small firm planning. Furthermore, the impact of planning sophistication on the strategic direction of the firm needs to be examined. Does a structured strategic planning orientation diminish the firm's ability to respond to change?

Research replications must take place in growth industries so that findings with regard to planning and financial performance can be transmitted to researcher and practitioner alike. One of America's greatest business assets, the entrepreneur, should be assisted in the operation and management of his/her firm in our turbulent business environment. Hopefully, the present study's methodology and findings will enable future researchers to respond to this call in a more logical and consistent manner.

ACKNOWLEDGEMENTS

The authors wish to acknowledge Peter W. Hom and Barbara Keats, both of Arizona State University, and two anonymous reviewers whose suggestions greatly improved this paper.

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