PLANNING IN AMBIGUOUS CONTEXTS: THE DILEMMA OF MEETING NEEDS FOR COMMITMENT AND DEMANDS FOR LEGITIMACY
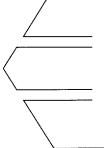
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This paper argues that ambiguity of context manifested in pressures for legitimacy and commitment affect planning processes. Ambiguity arises from multiple conflicting constituencies and the lack of direct control over resources. Using nonprofit and entrepreneurial organizations as examples of organizations facing ambiguous contexts, we examine their planning practices to develop an understanding of the relationship between commitment, legitimacy, and planning. From this analysis, we articulate a managerial dilemma: the need to use informality and vagueness to gain commitment from diverse interests, and the need to demonstrate formalization of managerial practices to acquire legitimacy from critical resource suppliers. Using elements of this dilemma, we present a new planning framework for organizations in ambiguous contexts that recognizes planning as a strategy for resource acquisition rather than a strategy for resource allocation.

Not all organizations practice ongoing, formal planning. Indeed, research points to the fact that formal planning is often excessively rigid and thwarts strategic thinking (Bryson, 1988; Eisenhardt and Zbaracki, 1992; Mintzberg, 1994b). Executive choice is frequently iterative, incremental and nonlinear (Lindblom, 1959; Quinn, 1980) rather than driven by formal planning processes. It is also widely acknowledged that certain context variables influence the quality of planning (Boal and Bryson, 1987; Nutt, 1984, 1987). In particular, the value of formal planning is unclear in turbulent environments (Chaffee, 1985; Fredrickson and Mitchell, 1984; Langley, 1988; Lenz and Lyles, 1985; Lloyd, 1992; Narayanan and Fahey, 1982; Stubbart, 1985). The stable predictability of environments assumed in e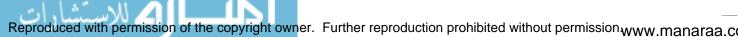arly theory (Andrews, 1971; Ansoff, 1965; Lorange and Vancil, 1976), has been replaced by *ambiguity* manifested in fluctuating stakeholder demands (Schwartz, 1991), a lack of direct control over resources, and uncertain futures.

Alternative planning processes and techniques appropriate for specific kinds of organizations are well articulated (Boal and Bryson, 1987; Bryson, 1988; Nutt, 1977, 1982, 1984), but the impact of ambiguous conditions on planning is not well treated. Here, we examine how contextual ambiguity and, in particular, the pressures for commitment and legitimacy, influence planning processes. We address formal and comprehensive planning, such as strategic planning that explicitly assesses external forces and articulates goals and action steps, as well as less formal and less complete processes. Our focus on relationships among planning, commitment and legitimacy makes an important contribution because it highlights planning as a strategy for resource acquisition rather than as a strategy for resource allocation.

Both commitment and legitimacy are critical for resource acquisition and influence planning. *Commitment* means the behavior binding an individual to others, a state of obligation (Hambrick, Geletkanycz, and Fredrickson, 1993; Salancik, 1977). *Legitimacy* is external validation, a property defined by a set of social norms as appropriate (Galaskiewicz, 1985; Pfeffer and Salancik, 1978; Scott, 1987). Although the two concepts are distinct, they interact. Commitment operates at the individual level while legitimacy derives from external groups and institutions. For individuals to commit themselves to become 'members' or participants of an organization, they must believe that the organization is legitimate. Conversely, legitimacy is unlikely without evidence of commitment. Management's dilemma is to meet both pressures: gaining commitment requires informal analysis and interaction since the development of shared perceptions and obligations is most important, while acquiring legitimacy entails demonstrating goal-oriented action and the use of formal systems. Formal planning is most often associated with these latter types of managerial activities; however, as this paper argues, other kinds of planning are useful when commitment and legitimacy pressures interact.

Nonprofit organizations and entrepreneurial firms exemplify two types of organizations facing ambiguous contexts and pressures to gain both commitment and legitimacy. Recent research on planning in these two kinds of enterprises shows that formal planning is infrequent and not necessarily associated with traditional measures of performance (Mintzberg, 1994a, 1994b; Robinson and Pearce, 1984; Stone, Bigelow, and Crittenden, 1994). We argue that planning processes are better described, and may work better, when matched with particular commitment and legitimacy needs present in ambiguous contexts.

In the next section we present differentiating characteristics of nonprofit and entrepreneurial firms. We then examine the environments of these organizations to understand pressures for commitment and legitimacy and how those pressures influence planning. The second section analyzes planning research on nonprofit organizations and entrepreneurial firms, and leads, in the third section, to a framework of planning configurations and propositions that reflect conflicting pressures for commitment and legitimacy. We conclude with a discussion of research implications.

AMBIGUOUS CONTEXTS OF NONPROFIT ORGANIZATIONS AND ENTREPRENEURIAL FIRMS

Many differences exist between nonprofit and entrepreneurial firms, such as legal form, tax status, and ownership patterns. Distinctions between strategic management practices of for-profit and nonprofit organizations have been previously elaborated (e.g., Bryson, 1988; Fottler, 1981; Hatten, 1982; Newman and Wallender, 1978; Nutt and Backoff, 1992).

We argue, however, that nonprofit organizations and entrepreneurial firms have much in common and occupy a middle ground between public sector organizations on the one hand and large, for-profit corporations on the other (Nutt and Backoff, 1992; Rainey, Backoff, and Levine, 1976). For example, nonprofit and entrepreneurial firms face fewer managerial constraints than public sector organizations but many more than large, for-profit firms. Constraints stem from the diversity of their stakeholders, the importance of non-market forces, and the lack of specific market information on which to base decisions. Aside from these general dimensions, nonprofit organizations and entrepreneurial firms share three features of ambiguous contexts relevant to planning: (1) the influence of multiple constituencies; (2) the lack of direct control over resource flows; and (3) small size.

Multiple, conflicting constituencies

Multiple and often conflicting constituencies strongly influence both nonprofit organizations and entrepreneurial firms. For example, organizational boundaries are especially permeable in nonprofit organizations where funders are intrusive and staff professionals hold allegiance to external standards of behavior. Many different interests attempt to define dominant organizational values, means and ends (Covey and Brown, 1985; Fottler, 1981; Kanter and Summers, 1987; Newman and Wallender, 1978). As a consequence, nonprofits have unclear and difficult-to-measure goals which, because of their vagueness, permit them to appeal to a range of constituencies whose support is necessary for survival (Bryson, 1988; Hatten, 1982; Newman and Wallender, 1978; Nutt, 1984).

Entrepreneurial firms must also satisfy a variety of stakeholders who have conflicting objectives.

The primary goals of the owner, the owner's family, employees, suppliers, and venture capitalists or bankers may be widely divergent and shift over time (Freeman, 1984). As Gartner, Bird, and Starr argue:

> Entrepreneurs create a constellation of different motivational systems to involve different stakeholder groups in the organizing process. Entrepreneurs suggest (act 'as if') to different individuals (i.e., potential buyers, suppliers) that certain outcomes will occur from the organizing process. Entrepreneurs, therefore, both seek out, as well as develop, motivations that will enable organizations to emerge. (1992: 25)

A critical managerial task for both types of organizations, therefore, is to gain commitment from a diverse set of constituencies who have objectives beyond simple profit. Economic rewards alone are not sufficient inducements to attract participants to either type of enterprise. Rather, inducements also stem from psychological and social benefits, such as personal achievement or working together to help others.

Lack of control over resource flows

A second common feature of nonprofit and entrepreneurial firms is the lack of direct control over resource flows, especially funding and legitimacy. Both types of organizations must meet external standards of legitimacy to acquire resources. In the case of nonprofits, funding from government agencies depends on political winds blowing through Congress or state legislatures. Economic recession and shifts in public policy have created increasingly constrained resources and dynamic environments (Bielefeld, 1992; Hoffman, Digman, and Crittenden, 1991). Legitimacy can be severely damaged by widely publicized, if far-removed, events such as the Aramony affair at the United Way of America in 1992.

Similarly, entrepreneurial firms depend on others for resources to survive. They suffer the liability of newness, lack established patterns for locating suppliers and customers (Stinchcombe, 1965), and are often unable to generate internally all the resources needed (Cooper and Dunkelberg, 1986). To access resources, entrepreneurial firms must rely on social networks and meet their norms and expectations to achieve economic purposes (Aldrich, Woodward, and Rosen, 1987;

Hansen and Allen, 1992; Reynolds, 1991; Starr and Fondas, 1992; Starr and Larson, 1993).

Small size

A third characteristic concerns size. While exceptions do exist, for example, in the case of many nonprofit hospitals and private institutions of higher education, many nonprofit organizations and entrepreneurial firms are small compared to most public sector agencies and prominent for-profit corporations. Being small, they are less structurally complex (Pugh, Hickson, and Hinings, 1969) and usually have less formalized but more centralized control systems (Blau and Schoenherr, 1971; Scott, 1987). For example, the organizational structures of entrepreneurial organizations have been described as flexible and loosely defined with informal and minimal management systems (Churchill and Lewis, 1983). Actions appear disjointed and chaotic when compared with larger firms (Stevenson and Harmeling, 1990; Kazanjian and Drazin, 1990).

With informal but centralized control systems, the influence of the executive or the board becomes particularly important. Research on small, entrepreneurial firms finds that many rely on the intuitive decision-making of an owner/founder(s) whose values, goals and skills shape the company (Bird, 1992; Cooper, 1981; Feeser and Willard, 1990; Kao, 1989; Miller, 1983; Scott and Shaver, 1991). In nonprofit organizations, founding boards also have a similar characteristic (Wood, 1993). Organizational mission, therefore, reflects the beliefs of one individual or a small group who use informal means to control the organization (Middleton, 1989).

Growth is also a critical factor for small nonprofit and entrepreneurial firms. How they perceive their environment is likely to influence their attitudes toward growth. While both types of organization rely on social networks to acquire resources, a decision to grow often means they must go beyond established networks and interact with outside investors, funding agencies, and regulatory bodies. These new stakeholders place additional demands on the enterprise.

The characteristics associated with managing multiple stakeholders, lack of resource control, and small organizations highlight a dilemma attached to gaining both commitment and legitimacy. Gaining commitments from diverse con-

stituencies to participate in the organization entails informal, personal interactions and broad articulations of organizational direction. To acquire legitimacy or external validation from resource suppliers, an organization must demonstrate formalization and rationalization of managerial practices. Some planning practices, such as strategic planning, satisfy legitimacy demands but are less useful and may be counterproductive to acquiring participant commitment. In the next section, we review research on nonprofit and entrepreneurial firms to examine planning practices more closely.

PLANNING RESEARCH IN NONPROFIT ORGANIZATIONS AND ENTREPRENEURIAL FIRMS

We examined empirical research on nonprofit and entrepreneurial firms to understand the planning practices of these organizations, given their ambiguous contexts. For nonprofit organizations, we reviewed major management and nonprofit journals from 1977 to 1992 and found 17 empirically based articles on planning (see Table 1 for a summary of each). Nonprofits described in these studies are 'charitable organizations' as defined within section 501(c)(3) of the Internal Revenue Code.

Substantial diversity exists among these nonprofits. To control some variation we focused on nonprofits within Hansmann's (1980) 'donative' category—nonprofits that receive funding from sources not benefiting directly from services and programs. These include nonprofits in the fields of human services, arts and culture, religion, international development work, and so forth. These nonprofits tend to be small and therefore created a better comparison base with entrepreneurial firms than 'commercial' nonprofits that rely on fee income from consumers, such as hospitals or nursing homes. Private institutions of higher education often receive a mix of commercial and donative sources of income (Hansmann, 1987) and are also excluded from this survey.

For the entrepreneurial firms, we reviewed major entrepreneurship publications from 1979 to 1992 which produced 21 articles (see Table 2 for a summary of each study). Since researchers rarely distinguish between small business owners and entrepreneurs and because few studies exist

on the subject of planning in small firms or new ventures (only three sampled by age), this review uses the term 'entrepreneurial business' to encompass both small businesses and new ventures.

Our analysis identified several consistent themes across both types of organization with regard to adoption of planning, determinants of planning, relationships between planning and performance, and the role of planning in these organizations. Table 3 summarizes these themes.

Adoption of planning

Formal planning was not widely used in either type of organization. Few nonprofits adopt formal, strategic planning (Brown and Covey, 1987; Crittenden, Crittenden, and Hunt, 1988; Jansson and Taylor, 1978; Odom and Boxx, 1988; Stone, 1989; Wolch, 1990; Young and Sleeper, 1988). Several studies reported that under 50 percent of their samples used a formal process that extended beyond annual, operational goals and budgets.

Similarly, few entrepreneurial firms planned (Shrader, Mulford, and Blackburn, 1989; Sexton and Van Auken, 1984; Shuman, Sussman, and Shaw, 1985). Among those that did plan, the process was informal, unstructured, irregular, and incremental (Gibb and Scott, 1985; Rice and Hamilton, 1979; Robinson and Littlejohn, 1981; Sexton and Van Auken, 1984; Spitzer, Alpar, and Hills, 1989) and rarely extended beyond budgeting and operational planning (Shrader *et al.*, 1989; Shuman *et al.*, 1985).

Determinants of planning

The use of formal planning in both types of organization was contingent on several factors, including external requirements, major crises, CEO support, and size. For both nonprofit and entrepreneurial organizations, the demands of external resource providers was an important determinant of formal planning. For example, the use of formal planning in nonprofits was positively related to funder requirements (Feinstein, 1985; Odom and Boxx, 1988; Stone, 1989; Tober, 1991; Webster and Wylie, 1988; Wolch, 1990). In entrepreneurial organizations, the influence of key outsiders such as banks or venture capitalists led to formal planning (Smeltzer, VanHook, and Hutt, 1991; Spitzer *et al.*, 1989; Robinson, 1982).

Table 1. Empirical research on formal planning in nonprofit organizations

Study	Question	Sample	Findings
Brown and Covey (1987)	What organizational dynamics of private development agencies are not easily solved by traditional management practices?	Case studies of four private development agencies (action research)	Lack of internal agreement about goals and/or means makes strategic planning unlikely. Decision-making by charismatic leader or bargaining more likely
Coghlan (1987)	To test the transfer of commercial and noncommercial models of strategy to religious orders	Survey and interviews with five religious orders	All orders studied used strategy concepts, most implicitly. Importance of CEO, mission, wide participation. Organization structure changed as a result
Crittenden, Crittenden and Hunt (1988)	What are the relationships between formal planning elements and stakeholder satisfaction?	Survey of 28 religious organizations	Significant differences between formal and informal planners on funding growth but no differences on other measures of stakeholder satisfaction
Feinstein (1985)	Extent to which planning can initiate large-scale organizational change	Single case study	Case study of an organizational development process that laid groundwork for planning
Jansson and Taylor (1978)	Extent and kind of planning used by social service agencies	Interviews with executive directors of 167 human services agencies	Not much planning but executives satisfied with process. Process dominated by executives with little board or staff involvement
Nutt (1986)	Identify tactics used to implement planned change. Analyze relative success of tactics and contingent factors	91 case studies from a variety of nonprofit organizations	Managers used four primary tactics: intervention, persuasion, participation, and edict. Intervention had best success and edicts the worst. Direct manager involvement in implementation considered critical
Nutt (1987)	To discover and explore the merits of tactics used by managers to implement a strategic plan of importance to the organization	68 case studies of various kinds of nonprofit organizations	Manager interventionist tactic was superior but infrequently used; participation tactic successful if key people were directly involved; persuasion by experts successful if no time pressure and plan only moderately important; edict largely ineffective

Table 1.   Continued

Study	Question	Sample	Findings
Odom and Boxx (1988)	What is the relationship between church size, growth and perceptions of the environment and formal planning?	Survey of 179 churches	Planning satisfaction significantly related with environmental complexity but not with increased dynamism. Planning sophistication significantly related to size and growth
Siciliano and Floyd (1991)	To what extent to board activities (e.g., involvement in strategic planning) mediate the relationship between board composition and organizational performance?	Survey of 240 YMCAs	Larger boards are more likely to be involved in strategic planning and board involvement in planning improves organizational social performance. Board involvement in planning mediates the relationship between board size and social performance
Stone (1989)	What determines adoption of formal planning by nonprofit organizations? Whose interests are served by formal planning?	Interviews with managers of 44 nonprofits in the performing arts and in social services	Type of planning used significantly related to type of nonprofit and type of funding environment. Larger nonprofits more likely to plan. Normative and mimetic processes in environment are also strong stimuli to begin planning. Planning is response to major internal and external changes
Stone (1991)	What is the relationship between board characteristics and formal planning?	Interviews with managers of 44 nonprofits in the performing arts and in social services and an in-depth case study	Much planning is episodic. Ongoing and beginning planners are more likely to have well-understood missions and boards with clear structures and policy-making functions than those nonprofits with no planning experience or those that abandoned the process
Tober (1991)	To describe the interorganizational planning network in a community	Interviews with and archival research on 19 human service organizations in one rural region	Planning by individual organizations influenced and was influenced by planning by local, regional, and state authorities. Board demands and funder requirements to plan were significant stimuli to begin planning. Planning changed organizational structures, mission, and relations between staff and board

Table 1. Continued

Study	Question	Sample	Findings
Unterman and Davis (1982)	Why do so few nonprofit organizations use formal, strategic planning?	Over 100 various kinds of nonprofits	Formal planning was more likely in large nonprofit organizations. Lack of planning was due to boards that were too large, lacked managerial expertise, and were dominated by their executive directors
Vogel and Patterson (1986)	Interrelationship between strategic planning and changes in organizational structure	Singe case study	Strategic planning redirected organizational strategy which necessitated a change in structure, causing conflict among staff, board, and top managers
Webster and Wylie (1988)	Explores why nonprofits adopt formal planning	Survey of 154 United Way affiliates	Nonprofits plans when they are required to do so by external sources. Larger NPOs more likely to plan. CEOs most satisfied when plan produced major changes but only half did
Wolch (1990)	What is the influence of the environment on the adoption of planning?	Survey and interviews with 14 voluntary associations in London	Very few nonprofits used formal planning before a major drop in funding. Later, many began to plan in response to new funder requirements. Larger nonprofits more apt to use formal planning
Young and Sleeper (1988)	What is the relationship between a national association's structure and its use of strategic planning and management (SPM)?	Survey of 79 national health and social welfare associations	Larger associations are more apt to use SPM where slightly more than 50 percent used SPM. Planning is a response to major internal or external changes. Corporate-style associations most likely to use SPM

Both types of organizations also used formal planning to respond to difficulties. For nonprofits, these included declining membership, executive succession, changing target populations, or shifts in funder priorities (Coghlan, 1987; Feinstein, 1985; Odom and Boxx, 1988; Stone, 1989; Tober, 1991; Webster and Wylie, 1988; Wolch, 1990; Young and Sleeper, 1988). In entrepreneurial firms, operating difficulties increased formal planning (Rice and Hamilton, 1979; Robinson and Littlejohn, 1981; Robinson, 1982; Robinson et al., 1984).[1]

A third determinant of formal planning in both

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[1] While Robinson and his colleagues' early analysis of planning in entrepreneurial firms stimulated research, all of the

types of organizations was the perception and involvement of the chief decision maker. In non-profits, the support of the executive director and at least some members of the board was essential to the adoption of formal planning (Stone, 1989, 1991; Tober, 1991; Wolch, 1990). Successful implementation of plans also was driven by the need for top managers to be directly involved (Nutt, 1986, 1987). Without the support of the CEO, planning was unlikely (Frank, Plascha, and Roessl, 1989; Bracker, Keats and Pearson, 1988; Bracker and Pearson, 1986; Opern, 1984; Shuman et al., 1985).

A fourth determinant of planning in nonprofits was size: larger nonprofits were more likely to plan than smaller ones (Odom and Boxx, 1988; Stone, 1989; Unterman and Davis, 1982; Webster and Wylie, 1988; Wolch, 1990; Young and Sleeper, 1988). Relatedly, entrepreneurial firms with more resources were more likely to use formal planning (Smeltzer et al., 1991; Shuman and Seeger, 1986; Shrader et al., 1989).

Relationships between planning and performance

Unlike the extensive treatment given to the relationship between formal planning and performance in for-profit firms (see Armstrong, 1982, and Miller and Cardinal, 1994, for useful reviews), it has been seldom studied in nonprofits. For entrepreneurial firms, the relationship is unclear.

The lack of attention to performance in nonprofit organizations may be due to measurement problems because multiple constituencies view performance differently (see, for example, Kanter and Summers, 1987). The three studies that did examine planning and performance used multiple measures of performance (Crittenden et al., 1988; Odom and Boxx, 1988; Siciliano and Floyd, 1991), including the satisfaction of key stakeholders and measures of economic *and* social performance. Wide variance in performance measures and the small number of studies prohibit any clear conclusions, although associations were

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samples in the three studies cited herein were drawn from businesses on Small Business Development Center (SBDC) client listings. It should be noted that nearly half of the clients using SBDC assistance were in the preventure stages, but of those that were operating businesses, many were seeking assistance because they were suffering from financial, marketing, operational or other problems.

reported between formal planning and signs of growth, such as increased funding (Crittenden et al., 1988) or numbers of members (Odom and Boxx, 1988). It was unclear, however, whether planning led to growth or whether growth stimulated the need for formal planning (Odom and Boxx, 1988).

The relationship between planning and financial performance in entrepreneurial firms has been frequently studied, but the results are mixed. While there is some consensus that planning is beneficial to organizational effectiveness (Robinson et al., 1984) and capability (Gibb and Scott, 1985), results are inconclusive regarding the extent to which planning improves financial performance (Opern, 1984; Gibb and Scott, 1985; Robinson et al., 1984; Bracker et al., 1988; Spitzer et al., 1989). For example, comprehensive, formal planning was related to better financial performance in studies by Bracker et al. (1988) and Opern (1984), yet informal and less frequent planning was found to be related to performance by Frank, Plascha and Roessl (1989) and Gibb and Scott (1985). A meta-analysis of 14 studies on small business and financial planning concluded planning matters because it is statistically related to financial performance (Schwenk and Shrader, 1993); however, they noted the difficulty of comparing studies because of methodological and measurement differences.

Role of planning

While the relationship between formal planning and performance in nonprofit organizations and entrepreneurial firms is not clearly established, other consequences of planning show clearer patterns. The roles that formal planning played in nonprofit organizations and entrepreneurial firms related to legitimacy and resource acquisition. In the case of nonprofits, structural reorganization, shifting balance of power between board members and top management, and changes in board and staff composition were associated with formal planning and often followed difficulties acquiring external legitimacy (Coghlan, 1987; Stone, 1989, 1991; Tober, 1991; Vogel and Patterson, 1986). Furthermore, managers increasingly perceived that they must plan (or, present a plan) to be taken seriously by most funders (Crittenden et al., 1988; Odom and Boxx, 1988; Stone, 1989; Tober, 1991; Wolch, 1990).

Table 2. Empirical studies on planning in entrepeneurship

Study	Question	Sample	Findings
Bracker and Pearson (1986)	To explore sophistication of planning in mature firms and relationship to performance	188 owner/managers, dry-cleaning industry, 5 years data	Quality of planning more important than quantity of time spent; attitude and role of owner/manager important
Bracker, Keats and Pearson (1988)	To study sophistication of planning process and financial performance in young firms in dynamic environment	217 owner/managers, electronics industry, firms less than 5 years old	Firms following structured strategic planning process outperformed those using less structured process; 'opportunistic' entrepreneurs better able to cope with changes in environment
Frank, Plascha and Roessl (1989)	To study differences in performance of new ventures that planned vs. those that did not plan	62 successful and 63 failed firms, from Chamber of Commerce in Vienna, Austria	Quality not quantity of plan more important; failed firms planned more often, had longer time horizon, did not monitor as often
Frank, Plascha, Roessl and Welsch (1989)	To identify components of planning behavior and relationships to planning values	68 firms from Chicago, 63 firms from Vienna	'Strategic vision' and 'resource assembling' were major values; former was related to analytical planning, latter to impressionist mode of planning
Gibb and Scott (1985)	To explore the planning process used by smaller firms	16 small businesses, less 50 employees, located in England	Planning process not formal; absence of formal planning not related to a firm's capabilities
McCann (1991)	To determine patterns of growth in small firms	100 CEOs of young technology firms	Patterns of choices (strategic decisions) are related to firm demographics (ownership and scope of sales); stage of development is not related to performance. Decision-making is complex
McKenna and Oritt (1981)	To examine growth planning in smaller firms over the life cycle	3 case studies	Growth is not equal to profit; logic of growth is often emotional
Naffziger and Kuratko (1991/1992)	To examine relationship between planning and performance	225 CEOs from Midwest	Planning benefits are increased sales and lower costs; planning defined as 'preparing for vision of future'. More than 60% planned

Table 2.   Continued

Study	Question	Sample	Findings
Olson and Morris (1990)	To study strategic planning of highly successful firms during start-up and growth phases	*Inc.* 500 firms (1987), 121 CEOs	Companies had different goals over their life cycles; main start-up goal was sales growth; main growth phase goal was profitability
Opern (1984)	To examine conditions where long-range planning will or will not improve performance	58 senior managers, small businesses, 25 high performers and 27 low performers	No relationship between long-range planning and high performers; high performers more often used formal planning committees, had favorable attitude toward planning, spent more time on task, and were thorough
Pelham and Clayson (1988)	To explore small business receptivity to strategic planning process	156 senior managers of manufacturing firms from Iowa	Operational planning performed more often than strategic, managers often intuitive about planning, area of previous experience affects how plan
Rice and Hamilton (1979)	To explore strategic decision process in small firms	35 owner/managers, Texas businesses with 1–190 employees	Owner/managers were intuitive, and used no formal decision process. Several personal sources used for information, involved in many types and levels of decisions, satisficing was common
Robinson and Littlejohn (1981)	To explore planning and its value, and identify the dimensions of planning in small firms	67 clients of Georgia SBDC	Sales increased after planning consultation with SBDC, planning in small firms different from large—less formal, focus on functional areas, owner/manager had commitment to activity
Robinson (1982)	To examine influence of outsiders in strategic planning process	101 clients of Georgia SBDC, two groups—one used outsiders, other did not	Inclusion of outsiders in strategic planning is beneficial because small firms lack human resources needed for the activity; business and strategic planning similar
Robinson *et al.* (1984)	To examine planning and performance relationships across stages of small firm development	51 clients of Georgia SBDC	Planning has positive impact on performance in all stages; intensity of planning varies across stages

Table 2. Continued

Study	Question	Sample	Findings
Shrader, Mulford and Blackburn (1989)	To examine planning and performance in small firms and see how environmental uncertainty affects planning process	97 small firms, having 10–100 employees, Iowa	65% had no strategic plan; no difference in planning behavior by industry sector; no significant relationships between planning and performance; more perceived uncertainty in market led to more planning
Sexton and Van Auken (1984)	To explore sophistication of planning in small firms	357 small Texas companies (1981), 278 small Texas companies (1983)	60% of firms at lowest level of planning (estimating sales), and over time most moved to lower level. Planning is a sporadic activity
Shuman, Sussman and Shaw (1985)	To study preparation and use of business plans in start-up of rapid growth companies	1983 *Inc.* 500, 220 companies less than 6 years old, private	49% had formal plans at start-up, favorable attitude of CEO encouraged planning, prior experience of CEO in planning led to more planning in company; 95% of companies without plans were profitable
Shuman and Seeger (1986)	To investigate small firm planning practices in rapid growth companies	220 companies, 1983 *Inc.* 500	Quality of information important, availability of slack resources is a critical contingency; normative models do not consider constraints of small firms
Smeltzer, VanHook and Hutt (1991)	To investigate the relationship between advisors, information assistance and business planning	111 small companies	Companies with written plans used more advisors than those not planning; written plans associated with longer preoperational stage
Spitzer, Alpar and Hills (1989)	To investigate planning in new-technology businesses, and relationship to performance	362 new-technology, Corp Tech data base	Correlations between external financing and planning, <43% had written plans in marketing and business plans. Reliance on informal process

Table 3. Summary of findings from research on formal planning in nonprofit organizations and entrepreneurial firms

Aspects of planning	Nonprofit organizations	Entrepreneurial firms
Adoption	Not many used formal strategic planning	Not many used formal planning
	Operational planning more likely	Likely to be informal, unstructured, irregular
Determinants	Funder requirements to plan	Influence of investors or banks for planning document
	Internal or external crises	Perception of major problems
	CEO and board support necessary	CEO attitudes critical
	Size—larger more likely to plan	Availability of resources
Relationship to performance	Underexamined	Mixed results
	Some relationship to growth	
Roles	Internal reorganization	Access to financial resources
	External legitimacy	External legitimacy

In entrepreneurial firms, research indicates that the extensive use of professional outsiders (i.e., SBDC or business consultants) in the planning process helped the entrepreneur gain approval for his or her idea (Rice and Hamilton, 1979; Robinson and Littlejohn, 1981; Robinson, 1982; Smeltzer *et al.*, 1991). By discussing the goals and plans of the business, the entrepreneur received feedback that validated the business's purpose. In this way, a plan is a symbol of legitimacy in situations where no tangible product or organization exists. Furthermore, entrepreneurial firms can not obtain venture capital or bank financing without a written business plan that articulates the business concept, goals, and implementation activities (Hustedde and Pulver, 1992).

Summary

Traditionally it has been argued that planning is an essential, ongoing process whose roles include defining business purpose, analyzing markets and customers, and developing specifications for allocating resources (Abell, 1980; Hofer and Schendel, 1978). The above analysis suggests two different conclusions regarding formal planning in nonprofit organizations and entrepreneurial firms.

On the one hand, adoption and consistent use of formal planning in both organizations were not widespread. Three factors related to the context of

nonprofits and entrepreneurial firms help explain these findings. First, formal planning clarifies vague goals, necessitates trade-offs among competing goals, and is likely to increase conflict among diverse constituencies (Bryson, 1988; Covey and Brown, 1985; Nutt, 1984; Walker, 1983). Second, without direct control over resource flows or external events, planning efforts are easily sidetracked by exogeneous shocks and planning documents become rapidly obsolete. Third, survival in both types of organization depends on variation and improvisation, and the accuracy and order of a formal process can restrict the range of possibilities (Weick, 1984). Owner-founders may perceive that formal planning reduces their ability to use intuition and lessens their maneuverability—that is, time spent planning results in missed opportunities (McMullen and Long, 1990). Many stated purposes of formal planning, therefore, are difficult to achieve under conditions of ambiguity.

On the other hand, formal planning was useful and necessary to the attainment of external validation or legitimacy and essential to resource acquistion. Nonprofits and entrepreneurial firms planned when they had to plan, that is, when outside investors or funders required a formal plan before dispensing resources. These organizations also used formal planning process because they perceived it to be necessary for external validation or legitimacy and for resource acqui-

sition rather than resource allocation. The next section elaborates the relationships among commitment, legitimacy and planning behaviors.

COMMITMENT, LEGITIMACY, AND PLANNING BEHAVIORS

Pressures for commitment and legitimacy

Pressures for legitimacy and commitment arise from internal and external sources. Internal pressures for commitment in nonprofit organizations come, for example, from the need to hold together the diverse interests of volunteers, staff, board members, and managers, while in extrepreneurial firms they emerge from the need to attract and retain employees willing to buy into the new venture. In nonprofit organizations, external pressures for commitment are generated by members of coalitions or interorganizational relationships critical to a nonprofit's ability to pursue certain strategies (Stone *et al.*, 1994). For entrepreneurial firms, these pressures arise from friends and business associates who are salient parts of the firm's network (Aldrich *et al.*, 1987).

Internal pressures for legitimacy are likely from members of a nonprofit's board (Stone, 1991) and volunteers (Drucker, 1989; Moyer, 1990) who want evidence of conformity to norms of managerial professionalism. For entrepreneurial firms, internal pressures for legitimacy also come from board members, other managers, and inside investors, often family of the entrepreneur who supply initial resources (Freear and Wetzel, 1992). For both nonprofits and entrepreneurial firms, external pressures for legitimacy flow from suppliers of financial resources, such as venture capitalists, banks, corporate foundations (Churchill and Lewis, 1983; Stone, 1989; Wolch, 1990), and from accrediting or regulatory bodies (Stone, 1989).

Pressures for commitment and legitimacy are expressed respectively by the questions, 'Why are we together?' and 'What are we doing?' Their answers suggest alternative views of planning.

Why are we together?

This question follows a social contract view of organizations that portrays them as collections of cooperative agreements among individual members (Keeley, 1980). Organizational goals do not exist, only individual goals do. Individuals can have goals *for* the organization but these do not exist independent of participant interests. Members are induced to participate when they see alignment between their individual interests and organizational activities, where 'members' include both organizational insiders and relevant outsiders (Barnard, 1938; Cyert and March, 1963). Hence, a critical role for organizational leaders is to instill confidence in stakeholders, inspiring them to move in some general direction (Weick, 1987). Answering 'Why are we together?' suggests a planning process that constructs linkages, building *commitment* among board members, volunteers, employees, resource suppliers, and so forth to continue to participate in the enterprise. This planning process is associated with the interpretive mode of strategy making (Chaffee, 1985).

What are we doing?

In contrast to the above, this question assumes that organizations are unitary actors with their own sets of goals that can be identified independent of individual interests (Chaffee, 1984; Keeley, 1980). Attention focuses on the goals *of* the organization where top management seeks agreement from participants on the purposes of organizational action. Answering this question is critical to gaining *legitimacy* because resource suppliers must believe that the organization intends to accomplish specific ends. Formal planning is one process used for this purpose, and a written plan becomes an orienting metaphor that allows the organization to be understood by resource suppliers and other stakeholders. For example, research documented the role of written plans in gaining access to certain resource suppliers. These plans and formal planning processes were used explicitly to gain legitimacy in the sense of external validation for the goals of the organization.

These two desired effects of planning— sustained commitment and enhanced legitimacy— share much in common with Cohen and March's (1974) early portrayal of different kinds of planning as tools for leaders in organized anarchies, that is, organizations with vague goals, multiple and shifting participants, and ambiguous outcomes. In these kinds of organizations, planning becomes:

1. an excuse for interaction, providing opportunities for discussion of many issues, particularly those that are most pressing;
2. a game used by managers to test the commitment of members;
3. a symbol, signalling that the organization intends to accomplish much; or
4. an advertisement used for external consumption and largely devoid of substantive content.

The first two roles parallel our discussion of commitment, while the last two emphasize planning's legitimating qualities.

Planning configuration framework

Interactions among internal and external pressures for commitment and legitimacy push organizations to adopt different kinds of planning as summarized in Figure 1. The likelihood of these planning configurations is expressed as propositions, meant to describe and not prescribe planning situations and modes.

Proposition 1:   Pressures to acquire commitment from both internal and external participants are likely to lead to interpretive planning.

Interpretive planning mobilized commitments of people inside and outside the organization. Gaining internal and external commitment requires negotiating face-to-face to advance relationships and develop trust (Dees and Starr, 1992). Interpretive planning, therefore, is likely to be informal, relying on participants' intuition, personal information, and values. For example, in nonprofit organizations, planning participants often rely on their individual knowledge of client needs or personal relationships with funders (Stone, 1989). In entrepreneurial firms, information gained through participating in networks of business associates provides inputs for planning. The process is also likely to be improvised where the improvisation has order but is action-based and flexible rather than a controlled execution of prior analysis (Mintzberg, 1994b; Weick, 1987).

The content of interpretive planning is likely to be symbolic, intangible, and communicated verbally rather than through a written document. Language that is imprecise but value-laden allows individuals to feel that their interests match those stated for the organization. The desired outcome of interpretive planning is satisfaction of diverse interests such that they continue their commitment and participation in the organization (Connolly, Conlon, and Deutsch, 1980; Pfeffer and Salancik, 1978; Pickle and Friedlander, 1967). Outcome measures, then, are multiple, implicit, and frequently subjective (Kirchhoff, 1977; Cameron, 1978).

Proposition 2:   Pressures to gain commitment from external participants and legitimacy from
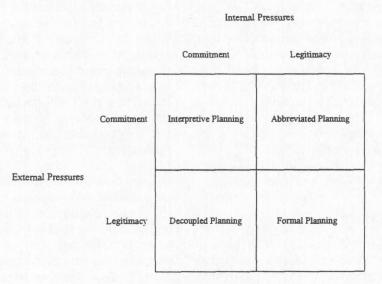

Figure 1.   Planning configuration framework

internal members are likely to lead to an abbreviated process of formal planning.

Abbreviated planning is similar to what Cohen and March (1974) label as planning as symbol, and what Nutt (1984) calls 'seductive' planning, conducted to meet demands from board members for a planning process but vague enough to leave the top executive free to maneuver. In abbreviated planning, only parts of a planning process, such as annual budgeting and goal-setting, are formalized, to satisfy the demands of internal participants that some formal, management practices are followed. Parts of a planning process that jeopardize gaining external commitment, such as specific, long-range goals or detailed action steps, are omitted. In their place are informal understandings, characterized by negotiation, vagueness, and social processes among individuals.

Stone (1989) documented this kind of planning in nonprofit organizations that were part of a government contracting system. A state agency viewed strategic planning as its responsibility and was primarily concerned with annual commitments between itself and the nonprofit service provider. Internally, however, nonprofit board members and managers used annual, operational planning to set their own short-term goals. The content of a written plan, therefore, includes some specific facts and figures but leaves longer-term goals vague and imprecise. Outcomes of abbreviated planning include objective internal measures of goal and budget attainment and subjective external measures of sustained commitment, such as continued participation in interorganizational systems.

Proposition 3: Pressures for legitimacy from both internal and external sources are likely to lead to formal, strategic planning.

Research found that nonprofit organizations and entrepreneurial firms planned when they had to plan, that is, in response to specific requirements from key resource suppliers, such as granting agencies or venture capitalists. The purpose of strategic planning was to meet external demands and to satisfy expectations of internal participants in order to gain legitimacy. Process characteristics of formal planning are likely to include the use of quantitative information and formal analysis of a range of factors, such as market trends, competition, and financial needs.

The content of this type of planning, therefore, is a written document with analytic data and time-specific action steps. The plan allows the organization to be understood by organization members and important resource suppliers. For example, Bird (1992) argues that entrepreneurs use time-relevant language in order to attain legitimacy from suppliers, buyers, or investors. Organizations facing external pressures from resource suppliers to control costs or demonstrate an efficient means–ends combination will focus outcome measures on financial or administrative ratios. These measures establish or maintain legitimacy in the eyes of resource suppliers because the measures portray managerial professionalism through administrative control.

Proposition 4: Pressures to acquire commitment from internal participants combined with pressures for external legitimacy are likely to lead to a planning process decoupled from core activities of the enterprise.

Decoupled planning is similar to what Cohen and March (1974) label as planning as advertisement and what Nutt (1984) describes as 'gesture' planning, a process largely devoid of substantive content, developed simply because it is required and meant to be ignored by the organization. The purpose of this process is to meet external demands for planning without interfering with internal, core activities of the organization. The result is a formal plan, presented as a promotional document for outside consumption. Management does not intend to use the plan for decision-making. Internally, management is focused on building or maintaining relationships on a day-to-day basis with staff, employees, volunteers, board members, and so forth.

The 'process' of planning, therefore, is likely to involve only one or a few people who use data and describe goals to meet the requirements of particular external resource suppliers. As Dees and Starr recount (1992), because entrepreneurial companies must promote an image of success to other companies, a 'Vice President for Strategic Planning' may be one person working in a basement.

RESEARCH IMPLICATIONS

In this final section, we address research implications of the planning configuration framework. Three research implications concern whether patterns exist in the sequencing of planning types. Two other research implications address the framework's application to other types of organizations.

Sequencing of planning types

For simplicity of presentation, the framework presents planning configurations as discrete entities. Because interactions between commitment and legitimacy are dynamic, however, it is unlikely that any one planning type will be used consistently. As a result, planning processes may appear episodic, disjointed or even as nonplanning when in fact they follow a logic built on the need to respond to shifting commitment and legitimacy pressures. An important question, therefore, concerns whether discernible patterns exist in the sequencing of planning types. While a full exploration of that question is beyond the scope of this paper, we offer three research implications.

First, research on planning processes should be longitudinal rather than cross-sectional. Longitudinal research will allow one to determine: (a) what factors generate commitment and legitimacy pressures; (b) how these pressures interact over time; and (c) how interactions relate to patterns of sequencing in planning processes.

Second, commitment and legitimacy needs are likely to be dominant during different stages in an organization's life cycle. For example, nonprofit and entrepreneurial firms must acquire member commitment early in their lives if they are to survive, and, therefore, interpretive planning is likely. Once initial commitments have been made, particular constituencies often demand formalized systems and statements of organizational goals, suggesting either abbreviated or decoupled planning. A transition to professionally trained managers and solicitation of external resources may stimulate the need for strategic planning.

Third, growth and decline also affect commitment and legitimacy pressures. During major growth periods, resource suppliers may increase demands for evidence of external legitimacy. The nonprofit or entrepreneurial firm responds with formal planning to substantiate its legitimacy and acquire the needed resources. Research cited above (Odom and Boxx, 1988; Crittenden *et al.*, 1988) found a positive relationship between growth indicators and formal planning. Following a growth spurt, organizations may need to re-establish participant commitment and use one of the other planning types to do so. A sharp decline in resources is also likely to affect member commitment. For example, Chaffee (1984) found that small colleges suffering dramatic enrollment declines in the 1970s were more successful if they used a combination of interpretive and adaptive strategies than if they only used an adaptive strategy. The interpretive strategies, which relied on symbolic language and activities, were crucial in rallying member commitment to new strategic directions.

Applicability to other types of organizations

Two other research implications concern the applicability of the planning configuration framework to other types of organizations. The framework was derived from an analysis of two seemingly dissimilar organizational types, nonprofit and entrepreneurial firms, suggesting that important elements of context may be generalizable to other situations.

First, the framework may be especially relevant to an examination of planning in interorganizational systems, such as strategic alliances, joint ventures, public–private partnerships, and so forth. These systems face ambiguous contexts similar to those of nonprofit and entrepreneurial organizations: multiple constituencies with conflicting demands exist (almost by definition), and no single organization directly controls all of the needed resources. Commitment and legitimacy are likely to be critical pressures, and both are needed to sustain joint action. Commitment is essential to continued participation among disparate parties—these parties must perceive that what they are involved in meets their own goals and interests. Establishing the legitimacy of these interorganizational arrangements is also critical. Resource suppliers outside of the interorganizational system as well as parties in the system must believe that certain formal managerial controls are in place.

We belive multiple forms of planning are used within interorganizational systems and can be

fruitfully examined using the planning configuration framework. For example, consider Boston Against Drugs (BAD), a collaborative venture among corporations, the city of Boston, and local neighborhood groups (Forlani, 1995). To comply with the requirements of BAD's major resource supplier (the federal government), formal planning takes place within a Citywide Support Group (CSG). The CSG is the policy-making body for BAD and is mandated by the federal government grant. Annual 'work plans,' however, are devised by neighborhood teams and consist of budgets and 'suggestions' from local residents. Work plans share much in common with abbreviated planning—annual budgets meet legitimacy demands from the policy-making body, while planned activities remain vague, allowing the neighborhoods to improvise as local opportunities unfold.

Second, in addition to examining the propositions in light of different organizational arrangements, future research should consider relationships between planning types and performance. The inconclusive results reported here regarding the effects of formal planning on financial performance may be illuminated by an investigation of the relationships between alternative planning types *and* various measures of performance. Performance should include indicators of commitment, such as sustained participation within and across organizational boundaries that result in new products or programs, and indicators of legitimacy, such as certainty of resource flows. Probing further the dynamic interaction between commitment and legitimacy will broaden our understanding of organizational and interorganizational outcomes of planning processes.

ACKNOWLEDGEMENTS

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