LONG-RANGE PLANNING TECHNIQUES IN THE UNITED KINGDOM

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ABSTRACT

This study reports the results of a survey of small businesses in the United Kingdom to determine the tools, and techniques, and approaches to planning they utilize. The intent is to develop a profile for small firms in the United Kingdom with respect to their strategic planning processes.

INTRODUCTION

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Small business emerged as a field of study in its own right only recently. Today, there is a growing awareness of the crucial role of these companies in creating new jobs and promoting economic development. There have been four streams of research and writing about these firms. The first attempts to determine whether small businesses focus on operational, as opposed to strategic, planning. Unfortunately, mixed findings have resulted from this research. In a separate stream of research the emphasis has been on the performance of small firms, with particular emphasis on the relationship between planning and performance. Numerous articles have emphasized the importance of planning for small businesses. They contend that good planning is a key to their success (Barton and Hounsell, 1994) and a major contributor to profitability (Kargar and Parnell, 1996; Ryans, 1997). A study by Masurel and Smit (2000) concluded that planning firms are more profitable than the non-planning firms.

Closely linked to this line of research are studies addressing the impact of formalized plans on performance. According to some, firms with structured planning processes are more thorough and detailed, and their performance - as measured by growth of sales - is significantly higher (Lyles et al., 1993). Others reported no significant relationship between formal planning and return on equity or return on assets. Yet they argued that simply engaging in a long-term planning process is beneficial to these firms as it leads to an improved understanding of the business (Lyles et al., 1995).

Finally, some attention has been devoted to the planning tools and techniques used by small businesses. In their study of the planning practices of these firms, Rue and Ibrahim (1996) reported the results of a survey of 128 businesses. However, this study focused on family-owned businesses - typically a subset of small firms. Furthermore, rather than focusing on one industry – thus ensuring a greater homogeneity among the companies – it included firms from several industries.

Despite these research efforts and the growing importance of small companies in the economies of many countries, there is surprisingly little empirical work that has examined the techniques, tools, and approaches to planning that are actually being used by these businesses. The present study is designed to partially fill this gap in the literature by reporting the results of a survey of small businesses in the United Kingdom. The intent is to develop a profile for small firms in the United Kingdom with respect to their strategic planning processes.

METHODOLOGY

Data were collected as part of a larger study of strategic planning in small businesses. A total of 930 small manufacturing firms operating in the Cumbria area of the United Kingdom were randomly selected.

Consistent with previous writing on the subject, the sample was restricted to a single industry in a particular region since firms in the same industry within the same region execute their activities under similar influence from environmental conditions and complexity (Robinson and Pearce, 1988; Wolff and Pett, 2000).

Data collection was conducted via a mail questionnaire of the chief executives of these firms. Each respondent was sent a copy of the research instrument accompanied with a letter explaining the project and assuring respondents of the confidentiality of their answers. A first mailing and one follow-up generated 287 useable responses. Since 37 questionnaires were returned as undelivered and 3 responses were unusable, this resulted in a net overall response rate of 32 percent. Although there is no universally accepted criterion for delineating small firms, the number of employees (500 employees or fewer) was selected as the key indicator of firm size following previous studies (see, e.g., Moini, 1995; Wolff and Pett, 2000).

Respondents were asked to indicate their present position with the company (e.g., CEO, Managing Director, Chair of the Board), in what year the company was founded, the number of full-time employees, the type of ownership of the business, and who founded the company. In addition, they were requested to indicate whether their company prepares a written long-range plan and, if so, the time period covered in these plans.

Following the convention used in previous research (Rue & Ibrahim 1996), those with written plans were asked whether they attempt to identify and analyze any of nine external factors (see Table 2). They were then asked if their plan includes quantified objectives for any of seven areas (see Table 3). Those with a growth strategy were asked whether they develop plans and budgets for any of nine areas (see Table 4). Additional items requested information on the types of pro forma statements which are developed; whether outside consultants assist in formulating these plans; whether computers are employed in the planning process; and how frequently performance is evaluated and whether, as a result, the plans are reviewed and revised.

RESULTS

Among the respondents, 272 hold the title of Managing Director, 14 are CEO=s, and 30 chair their boards of directors. Eighty-four percent are private companies, 61.5 percent were founded within the last 30 years, and 39 percent were founded by the respondents or their fathers. The median number of employees was 32, and the median age of the firms was 31.

1**Table 1 - Time Period Covered in Plans**

Time Period	Frequency	Percentage [a]
One year	32	11.1
Two years	17	6.9
Three years	79	27.5

Four years	42	14.6
Five years	72	25.1
Over 5 years	5	1.7
No written plans	40	13.9

[a] Total percentage is not 100 due to rounding.

Written Plans

Table 1 shows that the great majority of the firms in the sample (86.1%) do prepare some type of written plan. More than two-thirds prepare plans extending three or more years into the future. All those with plans extending longer than five years specified they had an exit strategy in mind. Brief comments indicated that this strategy was chosen due to lack of capital, the owner's age or health concerns, or children who were not interested in the business.

A. Premises

Premising refers to the consideration of forces outside of the immediate operating environment of the firm. Environmental scanning is the means by which managers can perceive and cope with external events and trends (Miller & Toulouse, 1998). Researchers report that such activities contribute significantly to firm performance (Venkatraman and Prescott, 1990).

Table 2 - Premises Contained in Written Plans

Premise	Frequency	Percentage
Population/demographic trends	49	19.8
National political developments	137	55.5
International political developments	126	51.0
Personal family incomes	44	17.8
Social/cultural trends	48	19.4
Non-product technological breakthroughs	31	12.6
Labor-management relations	76	30.8
National economic trends	139	56.3
International economic trends	133	53.8
No premises identified	15	6.1

As shown in Table 2, 15 of the firms that develop written plans (6.1%) do not attempt to identify any premises during the planning process. The most frequently used premises relate to national and international economic and political developments and trends. This is probably due to the availability and accessibility of related information. Furthermore, these managers can easily envision a relationship between these events and their businesses.

B.
Objectives

Planning can only be a useful managerial function if objectives are properly chosen. Without concrete objectives, the entire planning activity can easily turn into a futile exercise. Objectives provide benchmarks for evaluating progress and represent a managerial commitment to achieving certain results. Companies whose managers set objectives typically outperform those that do not (Thompson and Strickland, 2003). Many firms today are striving to attain multiple objectives as opposed to a single one. When choosing multiple objectives, the strategist must be careful to ensure that the different objectives are compatible. Whenever possible, quantified objectives are desirable.

The great majority (89.1%) of those who attest to having a written plan establish quantified objectives. Table 3 shows that sales are assigned the highest priority, probably because they are foremost in the minds of the managers. Indeed, this measure was specified by every company that prepares quantified objectives.

Table 3 - Objectives Stipulated in Written Plans

Objective	Frequency	Percentage
Sales	220	89.1
Earnings	71	28.7
Return on investment	63	25.5
Capital growth	66	26.7
Market share	61	24.7
Sales/earnings ratio	47	19.0
International expansion	166	67.2
No objectives are established	27	10.9

C. Growth

Eighty-six percent indicated that they pursue a growth strategy. In today's world, many executives view growth as the best path to survival and higher earnings. This is a very seductive strategy; it is exciting and ego-enhancing and is viewed as an indication of success. This strategy is especially important to the survival of small firms. They must formulate and implement growth strategies to avoid decline and enhance their ability to remain competitive (Poza, 1989). On the other hand, growth, if rapid, can be difficult to sustain (Willard *et al.*, 1992), and the firm's systems and processes may not be adequate (Forbrum and Wally, 1989).

Table 4 - Approaches for Implementing Growth Strategies

Approach	Frequency	Percentage
Hiring and training of key management personnel	86	34.8
Plant expansion	92	37.2
New product development	79	32.0
Managerial succession	38	15.4
Corporate acquisitions	41	16.6
Equipment acquisitions	117	47.4
Research and development	66	26.7
Advertising	79	32.0
Expanding international markets	160	64.8
No plans	32	13.0

Table 4 shows that almost two-thirds of these companies wish to expand their international markets and almost one-half prepare plans and budgets for equipment acquisitions. It is interesting that corporate acquisitions are considered by only 16.6 percent. Although they are difficult to forecast, it has been shown that those who grow through acquisitions generally outperform those that do so through internal means (Sharma, 1998). Succession plans are developed by approximately fifteen percent of these companies. Finally, among those who reported that their strategy is one of growth, thirteen percent failed to develop any specific plans and budgets to carry out this strategy.

D. Financial Analyses

One of the dangers associated with growth stems from the financial mechanisms which are involved in the growth process. The problems caused by the interaction of cash flow and growth have perplexed managers for years. Their dilemma is a balancing process that requires accurate forecasts. Once the forecasts for future expenditures and perhaps growth are completed, they must be evaluated to determine if they are financially sound. At the same time, enterprising managers realize that leverage (debt) can be used to balance the risk between the owners and creditors and is a valuable tool when a project yields a higher rate of return than the cost of capital.

Table 5- Pro Forma Financial Statements Used in Planning

Financial Statement	Frequency	Percentage
Balance Sheet	122	50.2
Cash Flow Analysis	131	53.9
Income Statement	166	68.3
None	81	31.7

Although the financial aspects of business planning can be quite complex, they should culminate in the preparation of pro forma statements. Respondents were asked if they prepared pro forma balance sheets, income statements, and cash flow analyses as integral parts of their plan. Four companies did not respond to this question. Table 5 shows that approximately two-thirds of those that develop written plans prepare these statements. The concern for profit is reflected in the fact that more firms prepare a pro forma income statement than a balance sheet or cash flow analysis.

Planning Tools

A. Outside Consultants

This study sought information as to whether consultants are engaged to assist in the planning process. Ten firms did not respond to this question. Table 6 shows that almost two-thirds do not use the services of consultants in their planning process. This is not surprising since the great majority of smaller businesses are probably reluctant to use outside resources. Consulting companies (mostly auditing firms, human resource specialists, tax consultants, and international trade specialists) are the single largest source. Free lance individuals, primarily business planners, are used by fewer firms.

Table 6 - The Use of Consultants in Long-Range Planning

Source of Consultants	Frequency	Percentage
Consulting Firms	68	28.7
Free Lance Individuals	22	9.3
None	155	65.4

B. Computers

Among those with written plans, 79 (32.6%) use a computer on a regular basis to assist in planning. Five companies did not respond to this question. Brief comments describing their use were solicited**.** The most widely used applications are related to financial and sales forecasting as well as financial control. They assist in making decisions concerning sales, financing, inventory, production, and advertising. The specific techniques include spreadsheets and trend analysis; pro forma models and return on investment simulations are employed by only 5 (2%) of the firms.

Evaluation

Because planning is a continuous process, plans should be periodically reviewed and revised. However, very little is known about how company performance is evaluated in many small firms (Sharma, Chrisman and Chua, 1997). The respondents were asked if their company periodically conducts a formal performance evaluation and if the plans are reviewed and revised as a consequence of this evaluation. Three companies did not respond to this question, and some reported more than one frequency. In these cases, only the most frequent review period was recorded. It is evident from Table 7 that quarterly and annual reviews are the most popular and are conducted by almost three-quarters of these firms. Interestingly, only 21 (8.6%) firms did not periodically evaluate overall performance. Eighty-one percent of those who conduct these evaluations indicated that the plans are then reviewed and revised.

Table 7 - Frequency of Review and Revision of Long-Range Plans

Frequency of Review and Revision	Frequency	Percentage [a]
Weekly or Less	7	2.9
Monthly	17	7.0
Quarterly	88	36.1
Semi-Annually	21	8.6
Annually	90	36.9
Never	21	8.6

[a] Total percentage is not 100 due to rounding.

DISCUSSION AND CONCLUSION

This study’s results are important for several reasons. They indicate that the planning practices of smaller businesses in the United Kingdom may be more sophisticated than generally perceived. Eighty-six percent of the responding companies reported that they do prepare some type of written long-range plan, and 80.2 percent of these prepare plans covering three or more years into the future. This finding is consistent with results reported by previous researchers (Dreux, 1990; Moscetello, 1990). This, in itself, demonstrates that many of today's small businesses have moved beyond day-to-day managing and are planning well into the future. One possible explanation for this finding is that, compared to businesses in other industries, manufacturing requires more lead time and more “up-front” costs and, therefore, a long-term relationship with buyers. These factors alone necessitate a long-term view and therefore provide the rationale for developing written and long-term plans.

Another important point is that all but 15 of these firms identify at least one external factor that serves as input to their plans. National and international political and economic trends are examined by many of these firms. All but 27 of those who develop a written plan establish quantified objectives. Adding further encouragement is the fact that many of the plans being prepared by these small businesses contain some fairly sophisticated elements beyond simply setting objectives for sales. For example, one-fourth set objectives for capital growth and market share. Eighty-one percent reported setting more than one objective. This is supported by previous research on larger firms in several major industries which found that most businesses pursue multiple quantitative objectives (Shetty, 1979; Schneider, 1990).

The preponderance of these businesses pursues a growth strategy and most of them prepare specific plans to implement it. Two-thirds develop some type of pro forma financial statement, one-third seek the services of consultants in their planning process, and one-third use on a regular basis a computer to assist in the planning process. More than 90 percent conduct a periodic evaluation of their performance to detect differences between planned and actual performance, and 81 percent revise their plans as a consequence of these evaluations.

On the negative side, only one-half of these firms develop pro forma balance sheets and cash flow analyses. In this study almost one-third are actively hiring and training key managers, yet only 15 percent prepare any type of succession scheme in their written plans. This has been one of the most pervasive problems in small companies. This low percentage is supported by other studies that report the inability or unwillingness of the owners of small enterprises to plan their succession (Seymour, 1993; Welsch, 1993).

This study's findings call to attention additional areas of concern. Less than 20 percent included population/demographic trends, personal family incomes, social/cultural trends, and non-product technological breakthroughs in their written premises, while labor/management relations are considered by less than one-third. It is interesting to note that while 86 percent stated that they are pursuing a growth strategy, only 87 percent of these companies develop specific plans and budgets to implement this strategy. Another interesting finding relates to the small proportion that does not retain any consultants. This is quite surprising given the rapidly changing technological advances and the complexity of laws and regulations affecting business. Another issue concerns plans that extend beyond five years; less than two percent have such a long-term horizon. Finally, almost two-thirds did not utilize a computer to assist in their planning. This is not surprising since researchers have found that smaller firms do not have the necessary expertise, the financial resources, and the required software and hardware (Peterson, 1996; Coleman, 2005). However, the importance of these tools will inevitably increase with growing business complexity and the necessity to gain and sustain a competitive advantage.

This study is not without limitations. Future extensions should give thought to replicating it using different populations. For example, firms in other regions of the U.K. should be surveyed. An additional caveat concerns the generalizability of the results. A study such as this one focuses on many firms in one industry - manufacturing - thus ensuring a greater homogeneity among the companies. However, it opens a line of inquiry on whether these results are valid across other industries. Thus another study which is devoted to other industries would be a fruitful endeavor. Another cautionary note concerns the possibility of bias in the data provided by the companies in the sample. Although this cannot be completely ruled out, self-report measures are indispensable in organizational research (Gupta and Beehr, 1982).

Although this study provides many important insights, the results raise additional research questions that merit further study. For example, to what extent do the planning practices of these businesses differ from those of large firms? Another interesting issue concerns the relationship between planning and performance. Another question that arises from this research pertains to succession plans. Given the importance of this issue, future in-depth studies should provide possible explanations for the absence of such plans in the vast majority of these businesses. Finally, a comparison of U.K. firms with their counterparts in other countries would be an interesting future research avenue.

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