

## SME Planning Responses to Uncertain Environments – Case Studies from the Singapore Automotive Industry

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## SME Planning Responses to Uncertain Environments – Case Studies from the Singapore Automotive Industry

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### **Abstract**

*This study examines the role played by risk perception (RP) and entrepreneurial orientation (EO) in influencing the strategic planning and decision making of SME owner-managers within uncertain environments. In addition, the study builds on and provides support for the SME planning response typology originally proposed by Mazzarol and Reboud (2009). The study was undertaken with SME cases from the Singapore automotive sector that were examined in relation to their strategic decision making in response to changes to their task environment over the time period 2008 to 2013. The methodologies employed within this study comprised a pilot study using three case studies, nine multiple case studies and a critical incident technique (CIT). To increase the reliability and validity of the study, moderated EO and RP scales were utilized and recommendations by Yin (2014) were adopted such as the use of chain of evidence and the investigations into rival theories.*

**Keywords:** SMEs, risk perception, environmental uncertainty, planning responses, owner-managers, Singapore

## **SME Planning Responses to Uncertain Environments – Case Studies from the Singapore Automotive Industry**

### **Introduction**

This paper focuses on the planning response behaviour, in the face of environmental uncertainty, of small to medium enterprises (SMEs) in the Singapore automotive industry. Despite its geographic and sectoral context, the paper offers findings that can be generalised to a wider population. It examines the role played by risk perception (RP) and entrepreneurial orientation (EO) in influencing the strategic planning and decision making of SME owner-managers. In addition, the paper builds on and provides support for the SME planning response typology originally proposed by Mazzarol and Reboud (2009). As they noted:

“The key to understanding the nature of a small firm is not so much from its size but from the complexity of its structure, the level of turbulence found within its external environment, and the sophistication of its management.” (Mazzarol & Reboud 2009, p.6)

For the purposes of this study we define an SME as an independently owned, non-subsidary business with fewer than 250 employees, and an annual turnover of less than €50 million, while a ‘small enterprise’ is one with between 10 and 49 employees and an annual turnover of less than €10 million (OECD 2004).

The study was undertaken with SME cases from the Singapore automotive sector that were examined in relation to their strategic decision making in response to changes to their task environment over the time period 2008 to 2013. The industry had experienced significant changes caused by government policy and economic factors. The paper initially provides an overview of the Singaporean automotive industry for context, before reviewing the relevant literature, and moving onto the methodology, analysis, discussion and conclusions.

### **The Singapore automotive industry in context**

Singapore is a small island nation with a population of around 5.4 million people and a land area of only 716 square kilometres. However, it has a vibrant economy and is one of the 34 nations comprising the Organisation for Economic Co-operation and Development (OECD). As with the other OECD nations, Singapore’s economy is based on a foundation of SMEs that employ around 62% of the workforce, account for over half the national GDP, and almost half the total value added (Shyan 2008, OECD 2012).

The Singaporean motor vehicle industry was selected as the focus of this study for several reasons. First, it offers a context in which there was a high degree of uncertainty within the task environments facing SMEs. Highly volatile environments are those in which a firm interacts with a large number of external forces that change in an uncertain or volatile manner (Samson & Daft 2009). A second reason for selecting this industry was the specific access the research team has within the sector facilitating the collection and analysis of data.

Although Singapore is not recognised as a manufacturer of motor vehicles it does undertake extensive refurbishing and finishing of imported cars. In addition to manufacturing, the sector comprises distribution and service elements. Despite the small size of the island state, Singapore has a market for around 60 brands of car with about 40 distributors. In 2012 there were estimated to be approximately nine cars per 100 people in the country, which is almost 30% more than Hong Kong (LTA 2014).

In order to control the traffic in this highly urbanised nation, the Singaporean government has maintained tight regulations over the importation and ownership of motor vehicles. A variety of import duties, road taxes and other schemes (e.g. Off-peak Car use), are in place to control the number of cars. However, one of the most significant is the Certificate of Entitlement (COE) scheme that was introduced in 1990 as part of the Vehicle Quota System. The COE is a licence to own a car for 10 years and places a substantial cost on the ownership of motor vehicles. COE costs are subject to price fluctuations as a result of a bidding process with variations from negative 11% to more than 22%. The cost of a COE can vary depending on the engine capacity of the car and has risen sharply over the years. In April 2014 COE charges for smaller vehicles (Category A <1,600cc) was S\$77,400, while for larger vehicles (Category B >1,601cc) was S\$84,504 (sgcarmat.com 2014).

There are around 644 firms operating in the Singapore motor vehicle industry, the majority of which are SMEs. They service a relatively small population with only 10% of the public owning a motor vehicle. This creates a highly competitive environment among the many small car distributors, parallel importers, dealers, exporters, rental and service firms. Continuous government policy changes add to the volatility and uncertainty. Other environmental factors likely to impact on the level of uncertainty are access to skilled workers, access to finance, changes in technology and changes in consumer behaviour. Employees in the sector are almost exclusively foreign workers, usually from Malaysia. Financial regulations administered by the Monetary Authority of Singapore (MAS), make the securing of loans difficult for car financing. The small, high income car market also seeks to maintain the latest models, which results in a firm constantly needing to maintain leading-edge technologies. Finally, the affluent Singaporean consumer views car ownership as a status symbol rather than a necessity, as high quality public transport systems are readily available. This means the consumer is seeking specific attributes from car ownership and the services provided to car owners, with an emphasis on luxury and prestige.

### **Literature review**

Substantial research into the planning behaviour of SMEs has been undertaken since at least the 1980s (see: Robinson and Pearce 1984; Bracker et al. 1988; Spitzer et al. 1989; Alpander et al. 1990; Lussier and Pfeifer 2001; Baker 2003; Maes et al. 2005). Despite this the strategic planning behaviour of SMEs remains an enigma. Academic interest has focused on the entrepreneurial process, particularly in terms of start-up ventures. Here the task environment is generally highly uncertain and conventional causation processes (i.e. where market conditions can be predicted) in business planning cannot be easily applied. Under these

conditions, an effectuation process (i.e. applying available resources to market conditions that are unpredictable) is more appropriate (Sarasvathy 2001).

However, a meta-analysis of published empirical studies found that the effect of business planning on SME performance was positive, although it was moderated by the age or development stage of the firm, the level of uncertainty avoidance within the firm's management team, and the level of sophistication of the planning process (Brinckmann et al. 2010). While planning was a benefit to all types of SME, it was more beneficial for small business managers within relatively stable market environments. Start-up and early stage ventures led by entrepreneurial managers gained less benefit due to the uncertainty they faced within their task environments. The quality of the information available to the firm's manager influenced the benefit of formal planning. Higher quality information, when available, led to better returns to planning. Of importance was the development of sophisticated planning methods and an ability to keep planning and implementation closely coupled so as to provide market feedback loops.

### ***Planning behaviour in SMEs***

The planning performance nexus within the SME is therefore a complex issue and requires an understanding of the characteristics of three key elements: i) the external task environment and how much uncertainty exists within it; ii) the organisational characteristics of the firm (e.g. size, complexity of structure); and iii) the managerial characteristics of the firm's leadership team (e.g. entrepreneurial orientation; ability to deal with uncertainty) (D'Amboise & Muldowney, 1988). Much of the planning that occurs within SMEs is short term and operational and intuitive in nature (Pelham & Clayson 1988; Matthews & Scott 1995). It can also be both informal and formal, but is often informal due to a lack of time, resources and planning competency (Robinson & Pearce 1983; Kraus et al 2005).

Past research into planning within SMEs suggests that planning has an effect on performance (Robinson & Littlejohn 1981; Rhyne 1983; Unni 1984; Robinson et al. 1984; Sexton & van Auken 1985; Schwenk & Shrader 1993; Orpen 1985; McKiernan & Morris 1994; Olson & Bokor 1995; Berman et al 1997; Sandberg et al. 2001). However, other studies have been less positive about the linkage between planning and performance in SMEs (Lindsay et al. 1982; Shuman et al. 1985; Shuman & Seeger 1986; Schrader et al. 1989; Schwenk & Shrader 1993; Rue & Ibrahim 1998; Mazzarol 2001; Yusuf & Saffu 2005).

This lack of consistency over the planning-performance nexus within SMEs is due in part to the issues raised above over the nature of the firm size, complexity and age of development. Also influential is the interplay between the characteristics of the owner-manager and the uncertainty found within the firm's task environment. Gibb and Scott (1985) explored these issues and proposed that the firm's planning and growth were contingent on the successful matching of internal resources to market opportunities. Building on the work of Duncan (1972), they identified four configurations within the firm's task environment: i) simple-certain (i.e. simple product/process and certain market conditions); ii) simple-uncertain; iii) complex-certain; and iv) complex-uncertain. Bracker and Pearson (1986) proposed a four-

part planning typology that followed a similar logic with: unstructured, intuitive, structured operational and structured strategic approaches, while Tidd (2001) linked these conditions with an innovation typology. Mazzarol and Reboud (2009) built upon these foundations and developed a four-part typology of planning responses comprising:

1. **The Shopkeeper** – a simple-certain task environment in which the most appropriate planning response is unstructured, or ‘fine tuning’ the business.
2. **The Administrator** – a complex-certain task environment in which the most appropriate planning response is structure operational, or an ‘operational efficiency’ focus.
3. **The Salesman** – a simple-uncertain task environment in which the most appropriate planning response is intuitive strategic, or a ‘market development’ focus.
4. **The CEO** – a complex-uncertain task environment in which the most appropriate planning response is structure strategic, or a ‘strategic transformation’ focus.

According to Mazzarol and Reboud (2009) the key factors that influence the planning response of SME owner-managers are their entrepreneurial orientation (EO) and perception of the risk they face from the uncertainty of the task environment. They also suggest that risk perception (RP) is influenced by EO. Their thesis argues that planning is a response to perceived risk by owner-managers, which is influenced the level of uncertainty in the task environment. However, people with high EO will tend to deal with uncertainty better than those with low EO, which suggests that RP is likely to be inversely related to EO. Thus the planning response (PR) found among high EO individuals will be less formal or structured than that for their low EO counterparts. Also playing a role in influencing the PR is the level of complexity found in the firm’s organisational configuration, which includes how complex the product/process operations are. This view is consistent with the findings cited earlier from Brinckmann et al (2010), who noted the moderating effects of firm complexity, uncertainty avoidance by the firm’s management, plus the formality and sophistication of the planning on SME performance.

### ***Risk perception’s influence on planning behaviour***

Prospect theory (Kahneman & Tversky 1979) suggests that an individual’s approach to risk is influenced by the level of certainty over future gains and whether the person ‘frames the problem’ in a positive or negative way (Neale & Northcraft 1986; Singh 1986; Tversky & Kahneman 1992). However, there is evidence that individuals can learn to deal with uncertainty thereby increasing their tolerance for risk (Osborn & Jackson 1988; Thaler & Johnson 1990). Sitkin and Pablo (1992) proposed that individual’s risk propensity was determined by their risk perception. An individual’s ‘risk propensity’ is defined as their tendency to take or avoid risks (Maccrimmon & Wehrung 1990), and is a characteristic that they can develop through exposure to risk (Sitkin & Weingart 1995). ‘Risk perception’ refers to an individual’s ability to assess the level of risk they face, and how much control they have given the uncertainty of the situation (Bettman 1973; Baird & Thomas 1985). The level of risk associated with a decision depends on the uncertainty of the outcome, the expectations the individual has and the potential that the outcome will result in positive or negative

consequences (Sitkin & Weingart 1995). An individual with aversion to risk is more likely to assess and weight the consequences of decisions, thereby overestimating the probability of loss relative to any potential gain (Schneider & Lopes 1986). By contrast an individual with higher propensity for risk will assess the positive outcomes more favourably, thereby overestimating the probability of gain over loss (Brockhaus 1980; Vlek & Stallen 1980).

For entrepreneurs and small business owner-managers the higher their propensity for risk, the lower their risk perception, which means that individuals with high risk propensity will see risks being lower than their counterparts with low risk propensity (Sitkin & Weingart 1995). However, the key factor in determining risk propensity is risk perception. Palich and Bagby (1995) found no significant differences between entrepreneurs versus non-entrepreneurs in terms of their propensity for risk. What was significant were their perceptions of the risk, which is a characteristic, observed in entrepreneurs (Brockhaus 1980; Cooper et al 1988). This suggests that an owner-manager would pursue higher risk options due to assessments of the perceived risk rather than any inherent propensity for risk. From a planning perspective, the decision to plan and how formal that planning is will depend on the person's risk perception and their perception of environmental uncertainty (Matthews & Scott 1995).

#### ***Entrepreneurial orientation's influence on planning behaviour***

‘Entrepreneurial orientation (EO) refers to the process and decision-making that managers of firms undertake. Pioneered by Miller (1983), EO is measured by five dimensions that relate to a propensity to act autonomously, a willingness to innovate, the propensity to take risks, competitive aggressiveness, and proactivity towards market opportunities (Lumpkin & Dess 1996). It has been developed over time into a well-established set of measures used to assess the EO of individuals and organisations (Knight 1997; Lyon et al. 2000; Kreiser et al. 2002; Hermansen-Kobulnicky & Moss 2004; Wiklund & Shepherd 2005; Chadwick et al. 2008; Baker & Sinkula 2009; Certo et al. 2009; Hansen et al. 2011; Wiklund & Shepherd 2011).

Research into the relationship between EO and planning behaviour in SMEs is limited, but there is a body of evidence to suggest that in large firms strategic decision making is influenced by the characteristics of the senior management team (Hambrick & Mason 1984; Hambrick 1987; Norburn & Birley 1988), with the personality of the CEO influencing strategic choice (Miller & Droge 1986; Miller & Toulouse 1986a/b). Studies that have focused on EO in small firms suggest that it does influence planning behaviour (Bracker & Pearson 1986; Pleitner 1989; Merz & Sauber 1995; Frese et al. 2000; Wiklund & Shepherd 2003; Choi & Shepherd 2004).

Mazzarol and Reboud (2009) proposed an inverse relationship exists between EO and risk perception (RP) leading to owner-managers with high EO to view potential risks as being lower than their counterparts with low EO. This was used to explain why some SMEs do little or no planning before taking action, while others will delay action until they have completed more rigorous planning. This interplay between the owner-manager's EO and RP, the complexity of their organisational configuration and the level of uncertainty within the task environment are areas that motivated this research.

From the preceding review of the literature the following research questions emerged:

1. In a simple-certain task environment characterised by a relatively benign environment and a simple structure, will the owner-manager focus principally on unstructured operational planning such as fine tuning of their businesses?
2. In a simple-uncertain task environment characterised by a relatively turbulent environment and a simple structure, will the owner-manager focus principally on intuitive strategic planning such as market development?
3. In a complex-certain, relatively benign task environment characterised by a higher concern on operational efficiency over external environmental issue and a complex divisionalised structure, will the owner-manager focus principally on structured operational planning such as operational efficiency?
4. In a complex-uncertain highly turbulent task environment, and a complex, adhocracy structure, will the owner-manager focus principally on structured strategic planning such as strategic transformation?
5. How does the RP of the owner-manager influence the decision in resource allocation for implementing strategic vis-à-vis operational plans?
6. Does the EO of the small firm moderate the owner-managers' perceived risk? If so, how?

## **Methodology**

The methodologies employed within this study comprised multiple case studies and a critical incident technique (CIT). Eisenhardt (1989) suggests that case studies can be a useful tool for theory building. Case studies offer a means of bridging the divide between the inductive logic of rich qualitative evidence, and the deductive logic of mainstream empirical research (Eisenhardt & Graebner 2007). The case study method has also been viewed as particularly valuable in SME focused research due to its ability to unearth rich information that would not be readily captured in anonymous surveys, and for areas where there is a paucity of theory (Chetty 1996). Stake (1978) also suggests that case studies offer social scientists the best option for 'adding to existing experience and humanistic understanding' (p. 7). Yin (2014) suggests that case studies are an empirical investigation into contemporary phenomena in its real life context, and in situations where the boundaries between phenomena and context are unclear. Multiple case study design has also been recognised as allowing greater power for theory building and enhanced robustness (Herriott & Firestone 1983; Yin 2014). The CIT method was used to assist in the data collection process. CIT has been employed for decades as a methodology to collect information from human subjects (Flanagan 1954). It has been applied successfully within the field of marketing (Keaveney 1995; Gremler 2004). The method involves having the interviewee focus on significant events they have experienced, how they behaved and the outcomes and perceived events (Chell & Baines 1998). It helps respondents to ground their responses in personal experience and assists in enhancing the richness of the data collected (Stauss & Weinlich 1997). The CIT method is recognised as a

useful tool in investigating patterns within phenomena without the need for hypotheses (Olsen & Thomasson 1992).

### ***Data collection***

Data collection took place during the period 2012-2013 and was guided by the methodology frameworks proposed by Eisenhardt (1989), Yin (2014) and Miles and Huberman (1994). A case study protocol was used to guide the field work and three pilot cases were undertaken that were used to refine this process. A further nine cases were completed. Cases were selected from the Singapore automotive industry with all firms being defined as SMEs. Interviews were undertaken with multiple managers within the firm, typically the owner-manager or CEO, and their partners, co-directors or family members. The CIT method was used to guide the interview through a timeline over the period 2008 to 2013. A critical incident timeline had been prepared that mapped the key changes to government legislation or other identified external events considered likely to have impacted the industry. This was used to guide the interviewee around their planning response to such environmental changes. A longitudinal approach was used in order to better capture the influence of environmental change on the firm's planning, which was a criticism of many cross-sectional studies undertaken into this field (Merz & Sauber 1992; Bouckenoghe et al. 2007; Ireland et al. 2005; Mazzarol & Reboud 2009). The interviews were undertaken by trained interviewers using the discussion protocol. All interviews were audio recorded and held in Chinese (Mandarin) as well as English. The case study protocol was translated into Chinese language and attention was given to accuracy in translation and the meaning of words used in the question items. The nine cases examined here were selected for their ability to provide good longitudinal data for the time period under examination.

### ***Units of analysis, coding and data analysis***

The key units of analysis were the owner-managers and their planning responses to changes in their firm's task environment. Operational measures for risk perception and entrepreneurial orientation were adopted from Sitkin and Weingart (1995) and Certo et al. (2009) respectively. As explained earlier in this chapter, the entrepreneurial orientation was "measured" through both observation and the use of questionnaire rather than survey that uses validated scales. Questions relating to strategic and operational plans were adopted from Robinson and Littlejohn (1981). These measures were used within the case study protocol and subsequent analysis, which assisted in guiding the reliability of the observations in relation to these measures. Data coding and analysis was informed by Eisenhardt's (1989) guidelines for developing theory from case studies plus the work of Piening (2011). NVivo software was used to assist the data coding and analysis as well as tools such as cruciform charts. Within-case and cross-case analysis was guided by the work of Miles and Huberman (1994), particularly in the examination of the owner-managers' strategic decision making. From the original set of 13 cases, a final 9 were selected, and questionnaires used to measure the EO of the owner-managers. The data analysis employed both the pattern matching and explanation building logics in analysing the nine case studies using the within-case and cross-case techniques. The analytical chain of evidence was practiced to increase the reliability of this study.

## Findings

Analysis of the nine cases that formed the final set of data found that the most significant external factor influencing uncertainty within the task environment was the price volatility of the COE. This had more impact than any other single factor. As shown in Table 1, the nine cases were all well established with between 3 and 29 years of trading history at time of interview. Two of the cases were within the definition of 'small enterprise' with between 10 and 49 employees, while the rest were micro enterprises with less than 9 employees. Only three firms had multiple operating locations.

<Insert Table 1 here>

The EO and RP of each owner-manager varied across cases. As shown in Table 2 four of the cases (D, E, J, L) had medium to high EO profiles with the other five (F, G, H, I, K) displaying low to medium EO. Of those with medium to high EO, all had low or medium RP, while three of the cases (H, I, K) with medium or low EO displayed medium to high RP, which is consistent with the theory proposed by Mazzarol and Reboud (2009). However, two cases (F, G) displayed little interest in the external environment, but had largely differing risk perceptions. Case G was operated by two owner-managers who were nearing their retirement and had reduced their workforce and appeared to be planning for an exit. Case F was run by two owner-managers who demonstrated little appetite for risk, but also did little long term planning. Case F was found to be a likely outlier notwithstanding.

<Insert Table 2 here>

The planning response behaviours of the nine cases were generally informal and operational rather than long term and strategic. Most respondents displayed a deep sense of scepticism over the value of formal long term strategic planning. Any planning that was identified was operational and tactical in nature. Despite this there was a lot of discussion over customers and market trends, suggesting that the 'dynamic' owner-managers in particular had a keen sense of their firm's market orientation.

<Insert Table 3 here>

As shown in Table 3 there was a pattern within some firms for their planning response to have changed in reaction to market or environmental changes. This was most noticeable for Case E. This owner-manager was a very entrepreneurial person who despite lacking formal education had built up his car washing and detailing business to where it was servicing the super luxury end of the market. His business had evolved with help from his lead customers and he had gone through all four planning response types as he responded to changes in the external market and the complexity of the firm's organisational configuration. Other cases such as J and H also displayed shifts in their planning responses. Case H adopted the 'Salesman' type after the 'Shopkeeper' planning response, as the owner-manager reacted to price increases in the COE. On the other hand, case J mitigated the environmental risk (i.e.

risk of smaller, less reliable after-sales service centre) by assuming more of an ‘Administrator’ response type by outsourcing the after-sales activities to a government-related company. Figure 1 shows the three cases (E, H, J) that changed their planning response over time, mapped against the strategic planning response framework originally proposed by Mazzarol and Reboud (2009). A general observation is that these firms were more progressive in their business outlook. Also to be noted is that owner-managers ‘E’ and ‘J’ had higher EO as compared to owner-manager ‘H’, and their risk perceptions were vice versa. However, case H’s progressive nature was evident in their considerations to tap into the potentially lucrative premium car market as well as into R&D activities at an appropriate timing.

**<Insert Figure 1 here>**

During the stages E1 and E3, the owner-manager remained operationally active. He was also at that time learning from his customers and learning how to be more strategic. At E4, he had already engaged a business consultant to help out in formulation of strategic plan. At stages 4 and 2, he could sense more about what he did not know previously. He began to understand that formal education was crucial for a businessman and “guts” (entrepreneurship) itself was inadequate. He perceived risk as low even though the stakes were high. It appeared that his increasing competence, support from his network and spouse helped to moderate his risk perception. The owner-managers of case H had only established the business three years prior to the interview however they were highly experienced and knew the industry very well. Even though they started out with the planning response of ‘The Shopkeeper’, their competence quickly accelerated them to be in ‘The Salesman’ role. The shift by case J from J2 to the J3 stage was due to their strategic alliance with a post-sales service provider. The latter is a government owned entity and was rather reputed to have high competence in all after-sales issues relating to the motor vehicle technical problems. That could explain how they had viewed the task environment to be less uncertain. The firm seemed uneasy in coping with the regulatory changes and increasing business scope such as targeting the hybrid and diesel vehicles. Thus, the owner-manager from case J moved to a more complex organisational configuration to deal with these contingent issues.

**<Insert Figure 2 here>**

Figure 2 illustrates the planning response behaviours of cases D, F, G, I, K and L. As shown, even though owner-manager ‘D’ had rather high EO, it did not make the firm more progressive and it persisted with ‘The Salesman’ planning response. Case F consistently maintained ‘The Shopkeeper’ planning response and was happy to be so. In their view, things were under control and there was no need to move beyond their status quo. Case G also had the same planning response. This firm was simply operating on a day by day basis. They were not overly concerned with the volatility of the task environment. Simply believing that by an honest and friendly approach, they will live for another day. The dual managerial styles as of case I segregated the roles of the two owner-managers. One was responsible for the operations (Administrator) while the other focused on business strategy (Salesman). Having

been in the business for close to three decades, they were presumably able to deal with the task environment. However, they were careful not to take risks for fear of failure. Salesman 'K' was competent but chose not to move beyond its current comfort zone. Case D followed 'The Salesman' response although the son had sufficient experience to move towards 'The CEO' style if the father were to become less influential in decision-making. Finally, owner-manager 'L' had a rather complex business model for a small firm. On one hand, he managed companies or rather "bosses" who were actually his shareholders of these companies. However, due to his 50% ownership in each of these companies, he ought to be concerned over the operational aspect. That could be why he had to visit each company everyday purportedly for the purpose of checking on sales and monies issue.

### ***Cross-case analysis***

The descriptive stories from the nine cases were examined via a cross-case analysis. Table 4 details a series of 'vignettes' along with representative data from the interviews. It suggests that there were broadly two groups of owner-managers, those considered dynamic (i.e. D, E, I, J and L), and those considered as static (i.e. F, G, H and K). A strikingly common feature among all these firms was that they were influenced by outsiders in their risk perception of the task environment. Boundary-spanning activities were intrinsically important. All firms appeared to be competent in relationship-building and social skills. Another common pattern was that all the owner-managers thought formal planning was not as important as the execution of plan. As long as they continued to be able to engage their boundary-spanning activities, their business could at least maintain itself. The static cases F, G, I and K could be described as engaged in a process of "struggle to juggle". These owner-managers lacked vision and long term thinking; they simply struggled by day to day and juggled their resources to keep the business profitable and operating. In relation to resource management and leadership, the owner-manager of case E trained his employees so as to align them with the company's objectives. In case F the owner-managers used integrity and fairness to inspire their workers and most of the others used sales commission as the carrot to motivate performance. In case 'D', the son's gentler approach mitigated his father's rough treatment of their employees.

Overall the findings support the idea that EO is a credible moderating variable for RP. However, market orientation could not offer a strong case against EO as a moderating factor to RP. The notion of 'strategy-as-practice' perspective appears appropriate to describe the strategy of these small firms. This perspective is congruent with the use of effectuation theory to explain the small firm's planning process, in particular cases like E and G. The findings suggest that decision-making by the owner-managers took input from both internal as well as external sources in what was described as "collaborative (input) decision-making". As a whole, the data supported the Mazzarol and Reboud (2009) typology. The findings were regarded as valid and credible representations of the raw data.

## Discussion and Conclusions

The study posed six research questions. The first of these specifically addressed 'The Shopkeeper' planning response and whether the owner-manager facing a simple-certain task environment will focus on unstructured operational planning. All nine case study firms had relatively flat structures and modest levels of complexity, only case L had a more complex structure. The two 'Shopkeeper' firms (G and F) displayed both low EO and RP, but were not interested in the task environment and focused primarily on a "struggle to juggle" process of fine tuning their businesses on a daily basis. The study supports the view that, a small firm with a simple structure within a simple-certain task environment will focus principally on unstructured operational planning, perhaps even more so when the product is simple. The apparent activities in such a scenario are that owner-managers deal with the task environment in a rather passive short-term fashion, fine-tuning and improving the operational processes along the way. The second question related to 'The Salesman' planning response. Cases D, E, J and K all demonstrated intuitive strategic planning. All the owner-managers in these cases possessed a high level of knowledge and competence that enabled them to deal with the uncertainty they faced in their task environment. To manage in this uncertain task environment, the intuitive approach focused on direct selling and marketing activities and tapped into strategic networks to develop the market. However, the trade-off in adopting the intuitive approach appeared to be a lack of focus on operational efficiency. These owner-managers demonstrated that a simple structure and an intuitive planning approach could help to weather turbulent environments while relying on their extensive industry experience. However, it appears that a simple structure with a common sense approach facilitates intuitive action. Also, their vast experiences appeared to compensate for a lack of sophistication in planning.

The third research question related to 'The Administrator' planning response. Cases E, J, L and I all displayed this planning response at some point in time. In the case of E and J, their increasing level of organisational complexity led them towards 'The Administrator' type. In the case of firm E, the owner-manager's brother was put in charge of the car washing business of which he had little direct supervision. As for firm J, a certain level of decentralised control was needed to manage the outsourced after-sales activities. The owner-manager of L practised decentralised control through managing the 'bosses' who ultimately made the operational decisions for each of the respective businesses. A tentative conclusion from this study is that in a relatively certain task environment characterised by a high concern for operational efficiency, and with a complex organisational structure; the owner-manager will focus principally on structured operational planning. The fourth research question related to 'The CEO' planning response. Only case E had adopted this response type. The owner-manager of E increased his knowledge and competence significantly with feedback from his lead customers. The trust between the owner-manager and his customers enabled him to believe in the latter's insights in especially not to overly focus on operational issues. As a result, owner-manager 'E' began to perceive the environment to be more uncertain than he had ever known it to be and that strategic management was useful to address the uncertainties. Breaking away from the industry norm, owner-manager 'E' eventually engaged

business consultants so as to mitigate the risks arising from the increasingly obvious volatile task environment. What limited his ability to maintain 'The CEO' approach was his lack of formal education, a point he freely acknowledged. He found it difficult to undertake the necessary analysis required to conduct sophisticated strategic planning and also the complex tasks for its implementation.

As proposed by Mazzarol and Reboud (2009), although owner-managers may plan informally, strategic thinking rather than formal planning should be employed for effective resource allocation especially in the scenarios of increasing product complexity or when more products are offered. Then, in agreement with Orpen (1985) and Lyles et al. (1993), the sophistication in planning and the contributions from outsiders would be beneficial especially for use in strategic decision-making. Thus, a formal strategic plan was deemed necessary and that outsiders were helpful albeit a strong preference for highly competent and committed consultants who could contribute to the formalisation of the firm's growth strategy, management skills and innovative initiatives. Thus, in a complex-uncertain task environment characterised by a highly turbulent task environment, and a complex, adhocracy structure, the owner-manager will focus principally on structured strategic planning. In relation to the last two research questions dealing with EO and RP, the cases support the typology proposed by Mazzarol and Reboud (2009) and further demonstrate the role played by EO and evolving risk perception in shaping the eventual plans. The simple organisational structure of these firms reduces the overall level of complexity within the owner's task environment and their boundary spanning with lead customers and key suppliers helps them moderate any perceived risk by obtaining information useful to their assessment of potential threats and opportunities. In most cases, the owner-managers' perceived risks were moderated by external network of which exist long-standing social capital. That is, all important planning decisions made by any owner-manager incorporate collaborative input from within or without the firm. Also, the mind-set of the owner-manager, as evidenced by owner-manager 'F' may lead them to ignore or at least fail to assess potential risks due to indifference towards environmental volatility.

In conclusion the analysis of these nine cases suggests that planning within SMEs is contingent on the EO of the owner managers who are their key decision makers, and also their perception of the potential risks they face in their task environment. However, it also supports the view that complexity of the firm's organisational configuration can influence the owner-manager to shift from a strategic to an operational focus in order to undertake the necessary management tasks required. As demonstrated by many of the cases, the planning response of owner-managers is not entirely static. Only two firms were static in 'The Shopkeeper' mode and two in 'The Salesman' mode. The other five adjusted their planning behaviour in the face of internal and external changes to the task environment. This study was undertaken with a relatively small number of cases in a single industry and country. For that reason it has some limitations. However, it offers rich and significant insights into the planning behaviour of SME owner-managers, and supports the planning response typology proposed by Mazzarol and Reboud (2009). Future research should seek to replicate this study in another country and industry. Quantitative analysis using longitudinal data would also be useful.

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**Table 1: Case study firms**

<b>Case</b>	<b>Primary activity</b>	<b>Description of business</b>
D	Car repair (workshop)	Est. 25 years with 9 employees, 1 location and 1 major service (motor vehicle repair & maintenance). Specialist in prestige cars (e.g. BMW, Mercedes). Family owned, with strong investment in technology and employee training.
E	Car detailing	Est. 20 years with 15 employees, 3 business locations, and 4 key product/service lines. Specialist in super luxury cars (e.g. Ferrari, Lamborghini, Rolls Royce, Lotus).
F	Car accessories installer	Est. 29 years with 5 employees, 1 business location and 2 major product/service lines. Specialist in high tech accessories (e.g. audio, video, GPS).
G	Car accessories trader	Est. 26 years with 2 employees, 1 business location and 2 major product/service lines. Sale & distribution of car and motorcycle parts to the trade and general public.
H	Car spare parts dealer	Est. 10 years with 3 employees, 1 business location and 1 major product/service line. After-market sales & service for car audio, air-conditioning and accessories for Japanese brands.
I	Car financing	Est. 3 years with 6 employees, 2 business locations and 1 key product/service line. Family owned firm specialist in auto financing for new and used cars.
J	Car dealer	Est. 10 years with 8 employees, 1 business location and 2 major product/service lines. Import and sales of European cars.
K	Car dealer	Est. 10 years with 5 employees, 1 business location and 2 major product/service lines. Import and sales of Japanese cars.
L	Car parallel importer	Est. 18 years with 20 employees, 3 business locations and 2 major product/service lines. Import and sales of cars.

**Table 2: Case study owner-managers Entrepreneurial Orientation and Risk Perception**

Case	EO measure <sup>1</sup>	RP measure <sup>2</sup>	Description of owner-managers
D	Medium to high	Low	Father and son team with 29 year old son seeking to replace the father's older customers with younger ones and deploy more technology. Father was conservative, risk averse and resistant to change, Son was more adaptive and concerned over lack of access to latest diagnostic equipment to allow them to service the newer cars. Strong market orientation.
E	High	Medium	Entrepreneurial owner-manager who had evolved the business to capture a niche in the luxury car segment, with very affluent clients. Lacked formal education but had taken advice of outsiders, including leading customers. Highly innovative he has a very strong market orientation and listened to his customers who he treated like friends.
F	Low	Low	Two owner-manager partners had built the business on high integrity, best in class products, excellent service and repeat business from loyal customers. They had little appetite for risk taking and retained a market position based on their past track record. Little long term planning or market proactivity.
G	Low	Low	Husband and wife team with limited appetite for risk and only modest proactivity in the market. They had little long term focus and took only limited interest in the external task environment. Both were nearing retirement and the business was no longer growing with some decline in profit.
H	Medium to low	Medium to high	Two owners with distinct roles (e.g. operations and finance). Showed some interest in innovation but proactivity was modest. Market orientation was medium to high with an interest in keeping customers in touch over new products. Market decline in Japanese cars had impacted their business and they had not reacted fast enough to the change.
I	Medium	Medium to high	Two owners with low risk taking proclivity and low levels of innovation. Believed that the car industry was moribund. Yet they understood their market well, particularly competitors. Saw the uncertainty and complexity in the market as high. The planning responses for the two partners were quite different one was 'The Salesman' the other 'The Administrator'.
J	High	Medium	Entrepreneurial owner-manager who had adapted well to market changes. Highly proactive and keen to get a 'first mover' advantage. Always seeking niche areas for new products.
K	Medium	Medium	Owner-manager was one of two who joined it when the firm had been operating for 6 years. Had a strong knowledge of his main competitors and was quite customer oriented. Saw the environment as uncertain and did not seek to innovate, rather he waited for others to try new things and then followed.
L	Medium to high	Low	Owner-manager had multiple businesses and saw himself as responsible for 'hiring bosses' to run his operations. Spent a lot of time visiting his outlets to monitor progress and collecting money. Did not display much proactivity or innovation in the market, but was willing to trial new ways to incentivise his management and sales teams. Was well aware of industry trends and used the internet to regularly monitor environmental changes.

<sup>1</sup>Entrepreneurial Orientation (EO) measure based on questionnaire adapted from Certo et al (2009).<sup>2</sup>Risk Perception (RP) measure based on framework from Sitkin & Weingart (1995).

**Table 3: Case study firms planning response**

Case	Planning response type <sup>1</sup>	Description of business
D	'The Salesman'	No formal planning although there was evidence of strategic thinking in the firm's response to increases in the price of the COE. New technologies, such as diagnostic systems for cars, offered market opportunities. Had never been trained to plan formally and did not believe in formal planning.
E	'The Shopkeeper' 'The Administrator' 'The CEO' 'The Salesman'	Planning response changes over time from 'The Shopkeeper' to 'The Administrator' when seeking to develop a new line of products. Took in outside assistance when it was recognised that the business was too complex. Adopted 'The CEO' planning response with formal strategic planning, but this did not last long as he could not implement the plans alone. Fell back on 'The Salesman' planning response.
F	'The Shopkeeper'	Focus was 'The Shopkeeper' planning response with owners focused on the day to day operations of the firm. There was limited innovation or creativity shown and there was a strong reliance on key suppliers to provide market information. Product adoption was mostly reactive and of a 'follower' rather than a 'leader' approach. Planning was rarely done but usually informal in nature.
G	'The Shopkeeper'	Planning was unstructured and informal with a focus on fine tuning the business day to day to maintain survival.
H	'The Shopkeeper' 'The Administrator' The Salesman'	Planning had previously been operational and ad hoc. Yet the rising cost of COE had triggered a response and recognition of the need for planning. This had become more formal and was investigating importing of products to help target premium niche customers. There was a move to structured operational planning, and then a targeting of future markets with intuitive strategic planning.
I	'The Salesman' 'The Administrator'	Strategic planning was evident with regular forecasting of future COE prices to help decide which new cars to focus on. Also monitored currency exchange rates and bank lending policies with strategic alliances with financial institutions. One owner had embarked on unstructured strategic planning (The Salesman), while the other oversaw operations and followed 'The Administrator' planning response. Both responses were at work within the firm simultaneously.
J	'The Salesman' 'The Administrator'	Planning was informal but strategic and focused on new business development. The introduction of new car models (e.g. hybrids, diesels) had led to a divisional corporate structure. This had seen the management focusing more on internal operations via structured planning.
K	'The Salesman'	Planning was formalised in the sense that once he had realised that what others were doing was feasible; he would race right into it. The resilience of dealers who dealt in new, used, and parallel car dealers had also convinced him of the need to diversify into all three segments and not just used cars alone
L	'The Salesman' 'The Administrator'	The owner-manager appeared to utilise structured planning by having a number of companies with different names, which allowed him to expand and covered a larger portion of the market. As his sales strategy illustrated a clear sign of structured planning to grow his business. His intuitive planning style is more operational rather than strategic. He needed to make rapid decisions due to the overwhelming effort needed to respond to the 20 persons under him. This might make him susceptible to errors when decisions had to be made hastily. This indicated that he was practising 'The Administrator'.

<sup>1</sup>Follows the planning response nomenclature proposed by Mazzarol & Reboud (2009)

Figure 1: Mapping of planning response (A)  
Managerial Characteristics

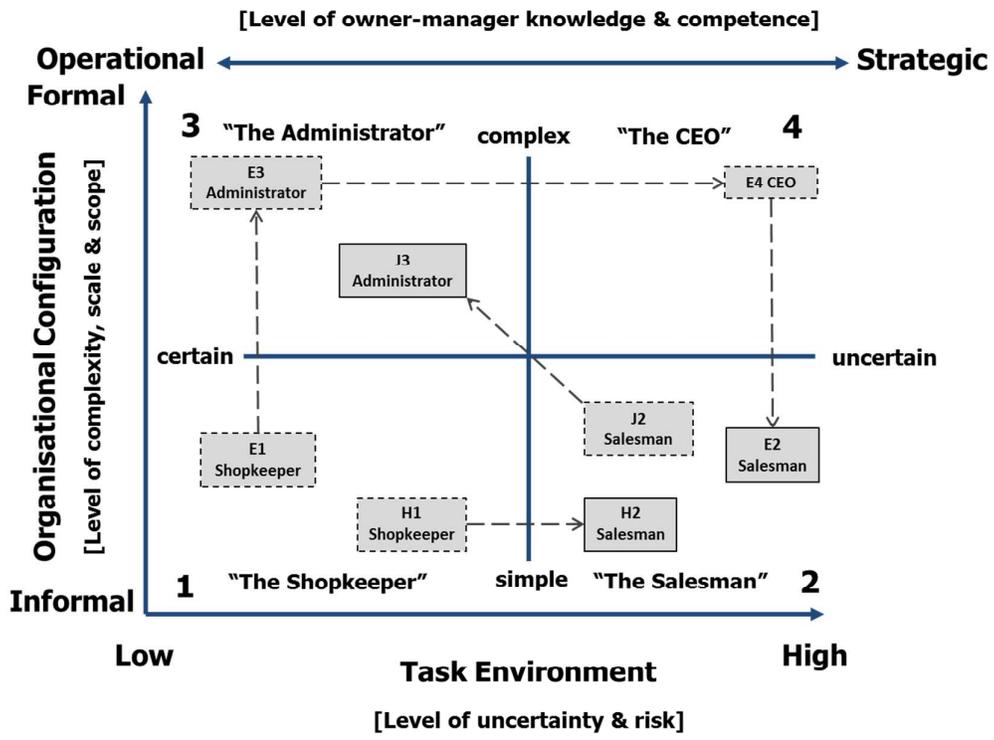
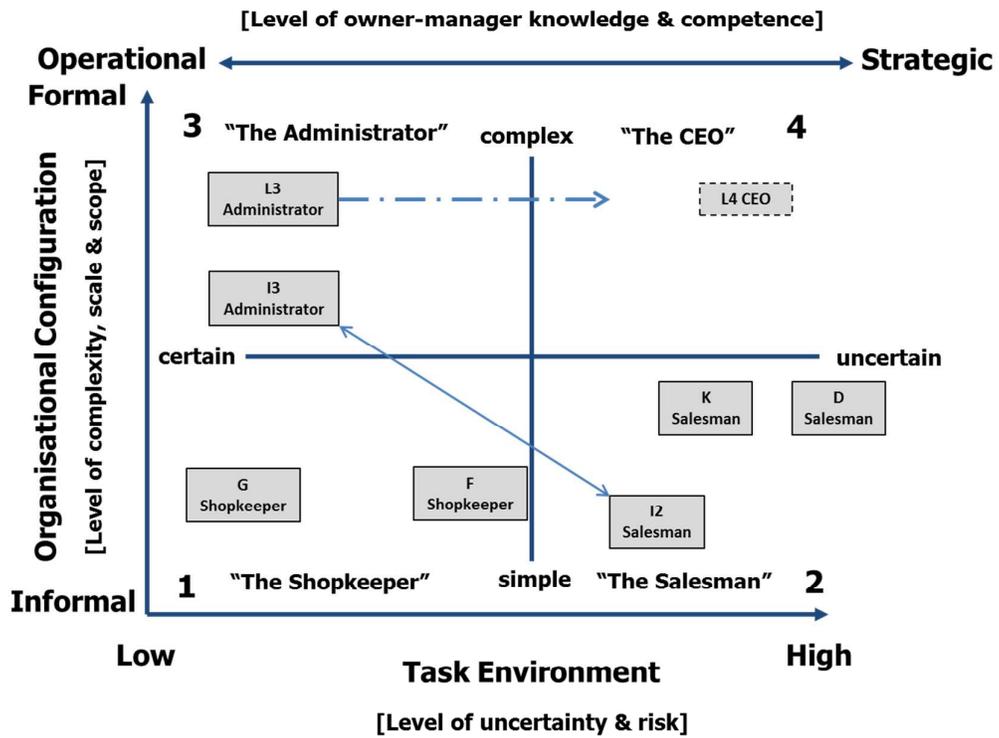


Figure 2: Mapping of planning response (B)  
**Managerial Characteristics**



**Table 4: Cross-case analyses dynamic and static owner-managers (adapted from Piening, 2011)**

Category	Vignettes	Representative Data Example
<p>Dynamic – Owner-Managers ‘D’, ‘E’, ‘I’, ‘J’ and ‘L’</p>	<p>Owner-managers knew that changes in the task environment were influencing their businesses, however, they were actively adapting. Governmental regulations that impacted car ownership costs such as those affecting the COE prices are the key challenges they faced. Still, these owner-managers could proactively utilise resources within and without the organisations to keep themselves meaningfully engaged in the industry.</p> <p>These owner-managers held formal meetings with employees to challenge company’s direction and this led to new plans being formulated. For example, owner-manager ‘J’ wanted to focus on new car segments or to adopt new technology car such as the hybrid cars in the following year.</p> <p>Collaboration rather than direct competition seemed to be more practised by these versatile owner-managers. Most of them thought that the market “pie” was sufficient for all to share. So, they routinely network to help out by sharing sales enquiries that they could not fulfil and to share their views or information relating to COE matters. The owner-managers made their own forecast of impending COE bid (prices) exercises and were willing to share their knowledge with their business associates. Such sharing of information helped in dispelling unfounded risk perceived or in mitigating any risks that might arise.</p> <p>Prior experiences also fostered the evolution of risk perception over time. As these owner-managers got accustomed to or had accepted the inevitable regulatory-effected changes, they felt a greater sense of being able to manage and adapt new changes. They were also less anxious and were operationally ready to implement new changes when needed. This was evident in the way the owner-managers dealt with currency risks which could be seen as one of the key considerations in the type of cars (country of origin) to be imported. Most of these parallel importers were prompt to respond to currency changes by importing continental, Japanese or Chinese cars depending on the strength of the respective currencies.</p> <p><b>Moderating effect of EO:</b>                  These owner-managers illustrated their high EO by proactively adopting strategies to deal with the uncertainties in the motor vehicle industry. Due to the rise in the prices of COE, the demand for new cars was expected to decrease. This led to a number of firms shifting their focus to used cars to meet the change in demand of the consumers.</p> <p>Firms might also choose to focus on a different segment such as the premium buyers. As profits from the sale of cars were generally low, ancillary services were developed, providing loans and financing services to increase their overall income.</p> <p>Forays away from more traditional markets to markets such as Japan, Korean and even Brazil were also considered when it came to importing new car accessories. Such changes, albeit risky,</p>	<p>‘We can get a lot of feedback among the dealers, and also the car, also the distributors and all that, because people in the sales group will have friends everywhere as well, so we will have a good gauge how much COE will basically go up or drop, depending on whether the new car orders are coming in, and how it eventually affect used car prices, and all that, so we get pretty good forecasting on our own.’ (Owner-manager ‘I’)</p> <p>‘To be able to gear your business to be able to switch, whether is buying in of used cars, or doing new cars and all these kind of things, basically to be very versatile, to be able to change not your business model but maybe focus on revenue streams, at different points in time.’ (Owner-manager ‘I’)</p> <p>‘On a whole, we always try to be more creative, a lot of other firms are following our way of advertising. We do not mind sharing our ideas with our peers if it can lead to more demand and more business for us too.’ (Owner-manager ‘N’ – training case study)</p> <p>‘In business there is always risk. If the COE go up too much, we will have a cap.’ (Owner-manager ‘J’)</p> <p>‘I will choose cars that I can profit from. It does not matter whether it is from Japan or China. Buying a car is simply buying metal. Sometimes it is good, other times it is bad. It is always changing.’ (Owner-manager ‘L’)</p> <p>‘Yes. Sometimes there is no choice. You have to test. It is not impossible not to buy this and that.’ (Owner-manager ‘L’)</p> <p>‘Opportunity in maybe mechanical and they will still maintain their car quite regularly. Like what I say, the customer base is quite different. The target audience is more on the premium groups.’ (Owner-manager ‘E’)</p> <p>Interviewer: When faced with a decision that affects my organisation’s financial future, would you choose more or less risky alternatives? Reply: ‘Less risky, unless the margin of difference is very high.’ (Owner-manager ‘J’)</p> <p>‘We wanted to start a training school under the management group. Training for car wash.’ (Owner-manager ‘E’)</p> <p>‘Yes but they are not under my name. I hire bosses to run the shops, and I</p>

	<p>provided new room for growth for these firms and managed their over reliance on local or usual sources.</p> <p>Different firms also had their methods of improving sales in unique but risky ways. Some came up with unique organisational structures which involved owning a chain of automobile companies, each with a different name. By working with partners on a profit-sharing basis, revenue was maximised by ramping up car sales in different geographical locations. Another received a dual source of income by selling cars to both end-consumers and other automobile businesses. One of them had not only launched his brand of car care products, but was also planning to start a school, with the intention of training qualified employees for the motor vehicle industry.</p> <p>All these enterprising firms revealed strategies which were in the broadest sense, directed at mitigating the effects of the fluctuating COE prices. Routine and continuous improvement practices were observed. All the above initiatives came about with their eyes opened to their exposure of potentially treacherous risks. Their entrepreneurial characteristics allowed them to sense their endeavours to be less risky than they were.</p>	<p>will monitor them.’ (Owner-manager ‘L’)</p>
<p>Static - Owner-Managers ‘F’, ‘G’, ‘H’, and ‘K’</p>	<p>In mitigating risk, some owner-managers chose not to adapt as they believed such efforts go against the trend of this being a matured (“sunset”) industry. Owner-managers all agreed that the prime concern was more on survivability.</p> <p>Although they were convinced that risks were imminent, to adapt might mean having to outdo competitors such as in the bidding of COE. This could result in incurring losses and overheads such as manpower costs, something that these small firms were not prepared to risk.</p> <p>Moreover, owner-managers had deemed the use of outsiders to be intrusive. They rather rely on their own business acumen accumulated over the years to mitigate any risks faced. Respondents were highly sceptical about the value that consultants could provide as they suspected these consultants were not as competent as them.</p> <p>The findings showed that despite the prevailing risks, owner-managers were satisfied with whatever they were performing. They were not too bothered by external influences and were indifferent to what other industry players were doing.</p> <p>For various reasons, owner-managers were contented with their current clientele of regular customers and operated on a day-to-day basis. They perceived little need to outdo other similar firms, instead choosing to rely on the same modus operandi since inception.</p> <p>With regard to the entrepreneurial orientation of owner-managers, some of them revealed conservative approaches when managing their businesses. Despite having rich experiences in this trade, extensive business contacts and access to quality products, attempts to grow their businesses were hardly noticed.</p>	<p>‘We follow the trend... When the hype dies down, we will change to another product type.’ (Owner-manager ‘F’)</p> <p>‘We can have operational plans on a day-by-day basis and see how things go. If can operate we will carry on, but if cannot then we may just have to close shop’ (Owner-manager ‘G’)</p> <p>‘No (we don’t hire outside consultants). Because this is based on experience’ (Owner-manager ‘K’)</p> <p>‘It is not say we do not consider overseas, but overseas wise, it is a bit risky because firstly you got to know people there, and when they show you the product there, it might be a top class product...but after that you start to get problems’ (Owner-manager ‘H’)</p> <p>‘Not about loss-making or otherwise, but if you consider the overheads such as rental, it appears foolish to venture into uncharted territories.’</p>

<p>Several of these owner-managers had the notion that there was little value in planning ahead, as the industry was unpredictable and constantly changing. They preferred to adopt a 'follower' mentality, adopting the strategies successfully implemented by their competitors and peers. Evidence of them trying to introduce new products and services were scarcely detected. In fact, they would only do so when customers began asking for them and were viewed as isolated events.</p> <p>Mostly, they served repeat customers and offered the same type of services over the years with little changes. Such conservative approaches were usually due to the owner-managers' belief that little could be changed in a matured industry. To them, to try anything new would mean running ahead of the industry - meant little demand could be expected. Over the years, owner-managers perceived little need for innovative and entrepreneurial actions.</p>	<p>(Owner-manager 'G')</p> <p>'What if there are new opportunities with uncertain outcomes? It depends. If it is a loss-making venture, I won't try.' (Owner-manager 'G')</p> <p>'We just ordered 2 or 3 to try and sell, to check if there are any issues. If there are no problems, we will continue to sell, or else we will stop selling the product. This is because we do not want to cause inconvenience to customers too.' (Owner-manager 'F')</p> <p>'Because in this industry, we follow the trend. We will offer the product that is currently popular in the market. For example, CCTV camera is currently popular. There will be many customers who ask about the product. When the hype dies down, we will change to another product type. There is nothing much to plan. We follow the trend.' (Owner-manager 'F')</p>
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