

Planning and Growth Characteristics of Small Business Owner-Managers

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Abstract

This paper outlines the findings from a study of small business owner-managers who were seeking to grow their businesses. The study examined the management practices of these owners and their strategic thinking in relation to internal and external environmental issues. The study suggests that owner-managers who have a strong growth orientation are likely to have an enhanced sense of their strategic vision, and the ability to communicate this vision to their employees. Firms that possess formal business plans are more likely to have stronger support network partnerships, formal quality assurance and the ability to lead change among employees. A relationship was found between an above average level of average annual sales turnover and the personal vision of the owner-managers. The findings suggest that owner-managers from small firms should seek to benchmark their business against industry best practice, but that such benchmarking must be supported by a clear strategic vision and the capacity to communicate this vision to others, particularly employees. Implications for the education of small business owners are also discussed.

Keywords:

Small business, Owner-Managers, Strategic Management; Business Planning; Growth.

Strategy and Planning in Small Firms

Formal business planning within small firms (e.g. those with less than 250 employees) is frequently associated with a process whereby the owner-manager(s) of the firm systematically attempt to examine their business environment and establish a framework and direction for future activities. Several elements encompass such a process. The first of these is the preparation of a mission statement, examination of the current situation facing the business and forecasts for future growth. The establishment of objectives and strategies to meet them follows this. These elements must then be documented for internal and external stakeholders and a monitoring-evaluation process established (Linder and Vick, 1984). Also of importance

are the entrepreneur's own personal objectives and the ability to learn from any past successes or mistakes (Howard and Emery, 1985). Finding the best fit between mission, opportunities and firm capabilities is frequently a major challenge for small business owner-managers (Bryan, 1998). External consultants such as accountants or business advisors can assist effective business planning within small firms, but it is the owner-manager who must take ultimate responsibility for the plan and its implementation (Bracker and Pearson, 1985).

Small business owner-managers have been found to have a less sophisticated approach to formal business planning than their counterparts in larger firms. This is generally related to a lower level of systematic data gathering or statistical analysis. However, owner-managers are strategically aware and realise the consequences of their decision (Rice, 1983). The lack of formal business planning has been attributed to the high failure rate among small firms, particularly among start-ups (Castrogiovanni, 1996). This study examined the strategic thought and planning orientation of small business owner-managers engaged in growing firms. The principal research questions that this study sought to address were:

1. What are the key managerial factors associated with growth oriented small firms?
2. Is there a difference between the managerial behaviour of small business owners who adopt formal business planning and those who do not?
3. What factors are associated with small firms that grow faster than others?

The Growth of Small Firms

Research into the growth of small firms has indicated a series of stage-models in which the business moves through a number of defined stages as it grows (Churchill and Lewis: 1983). While various models identify different numbers of stages, these models generally suggest that the business is initially conceived in the mind or minds of its founders (pre start-up), is then established (start-up) and passes through several additional stages as it grows into a mature large firm. These additional stages might encompass a period of *survival* while the firm struggles to achieve sustainable profitability, *growth* (sometimes divided into early and late stages) in which the firm takes on employees, wins new markets and introduces new products. Once it starts to grow it will either plateau off or enter a further stage of *expansion* in which transitions from a small to a medium or even large firm before reaching maturity (Scott and Bruce, 1987). While the actual growth of individual small firms may not be as linear as such theoretical models suggest, they provide a useful framework against which to analyse the experiences of particular firms.

At each stage of the process the small firm can grow, plateau or even die. In the initial stages of formation and survival the owner-manager is largely focused on keeping the business alive and must find new customers and maintain sufficient cash flows to pay running costs. The owner-manager is likely to be the most important asset the little firm has, providing all its managerial skill, direction and financial capital.

It is common for many small firms to plateau and remain quite small with limited resources and local horizons. This capped-growth is usually the result of a conscious decision by the owner-manager to restrict the firm's expansion out of a desire to avoid risk, uncertainty and

the general problems associated with hiring more employees, winning new markets, developing new products or securing new capital investment (McMahon, 1998).

There may also be a lifestyle decision involved in which the owner-manager chooses not to grow the firm due to satisfaction with a small-scale operation that delivers low stress and an easier life. Such abandonment of the desire to grow by the owner-manager may take place in the relatively early stages of development where the firm has fewer than 10 employees and sales revenues of less than US \$0.5 million (usually associated with the lifestyle decision), or it may take place later when the firm has grown to around 25 employees and a sales turn over of about US \$2 million (a capped-growth decision) (Hanks, Watson, Jansen and Chandler, 1993).

Should the firm move successfully into a growth or expansion phase the owner-manager will be required to increase the scale and scope of its operations. Part of this expansion will involve hiring additional employees, and increasing the overall complexity of the firm's activities. It is likely that the need for greater levels of professional management will be required to operate the firm, along with the need for enhanced planning and the introduction of systems to support the new levels of complexity.

The transition from a small, owner-managed firm to a large systems-managed business will require the development of a team-based management approach with greater specialisation within the management team. Corporate governance is also likely to change as the growth cycle takes place. As it grows, the business will become more formalized in its accounting, management and other systems. The need for greater quantities of capital is likely to lead the business towards equity finance. As new equity partners are taken into the company the original owner-managers may find their level of control diminished. The larger the firm becomes the more likely its management structure will become decentralised with greater separation between the owner and the firm in terms of operational and financial matters.

The Owner-Manager's Influence on Growth

Although successful growth within the small business sector is contingent upon many factors, the most important is arguably the attitude of the owner-manager. The decision to grow is a risky one that many entrepreneurs choose not to make. For example, a survey of 1,996 Small and Medium Enterprises undertaken by the Japan Small Business Research Institute in 1994 found 64 per cent of respondents did not wish to grow into large corporations (Kazumi, 1995). Similar findings were produced by the *Yellow Pages Small Business Index* (1995) survey of Australian small businesses that found less than 10 per cent of respondents were growth oriented.

The reasons why so many small business owner-managers should not desire growth are numerous. Concern over having to go into debt is a deterrent to many, particularly women (Taylor, 1986). Growth can also represent a loss of personal control by the owner-manager who may dislike the idea of passing the responsibility of running the business over to professional managers. It is important to realise that the problems associated with growth in the small business are just as difficult as those confronting much larger firms are. Effective growth strategies require careful planning and most small business lack the resources needed to undertake this (Shuman and Seeger, 1986).

For many small business owner-managers the decision to grow is fraught with problems (Bosworth and Jacobs, 1989). Inadequate management skills, particularly in strategic planning, can serve as a deterrent (Scase and Goffee, 1980). Access to finance has also been identified as a major impediment to small business growth in firms requiring it for R&D (Jones, 1992). The inability of the small business to seek out sources of information and technology needed for growth has also been found to act as a potential barrier (Rothwell and Beesley, 1989). According to Jones (1992) the majority of barriers to small business growth are found inside the business. These include a lack of technical and managerial skill, inadequate organisational adaptability and ability to acquire or use technology. Alpander, Carter and Forsgren (1990) in a study of 526 small early stage firms found similar results with the majority of problems being solved by logical decision making and management skills

Research into the reasons why owner-managers from small firms might make a conscious decision to grow their business has focused in part on their psychological or personality characteristics (Moran, 1998). Some evidence exists to support a link between growth focus and the strategic orientation and entrepreneurial character of the owner-manager (Kotey and Meredith, 1997). For example, a link appears to exist between the owner-manager's need for achievement (nAch) and their growth orientation (Perry, Meredith, and Cunnington, 1988). The importance of managerial competence as a key factor in the capacity of small firms to grow has also been highlighted in the literature (Watson, 1995). Also important is the firm's ability to adapt and change as threats and opportunities emerge. A particular strength of small firms is their ability to flexibly adapt, with their organisational culture being adaptable due to their small size and openness. Firms with too much rigidity and formalisation or those with no structure or rules are less likely to succeed than those that can strike an effective balance (Stoica and Schindehutte, 1999).

The Benefits of Planning

The benefit of formal planning to small business performance has been debated within the academic literature throughout the past twenty years. Some authors have argued that formal strategic planning is more appropriate within larger firms and of limited benefit to the financial performance of small business (Robinson and Pearce, 1984). Despite such views the empirical evidence to support the case for formal planning having a benefit to small firms has been both inconsistent and contradictory (Pearce, Freeman and Robinson, 1987).

Schwenk and Schrader's (1993) examination of 14 research studies relating to formal strategic planning and performance in small business was unable to offer conclusive support to the benefits of such planning to small firms. However it did reject the notion that it was appropriate only to large firms (Schwenk and Schrader, 1993).

Empirical studies of small firm performance and the relationship with formal planning suggest that such plans do make a difference although the precise nature of the link between the two is poorly defined. A study of 51 small firms by Robinson, Pearce, Vozikis and Mescon (1984) found formal planning to be beneficial to business performance regardless of the growth stage in which the business found itself. Start-up firms tended to be more profitable if the owners engaged in formal planning. Firms engaged in growth stages were likely to benefit from higher sales growth if they conducted formal planning.

A further study by Olson and Bokor (1995) of 442 small start-up firms supported the case for formal planning enhancing business performance although this was found to be context dependent. Characteristics of the entrepreneurs – prior management experience or previous work history – were found to be significant. Sexton and Van Auken (1985) undertook a longitudinal study of 357 small firms in Texas over a four-year period. They found formal planning was conducted by only a relatively small number of firms and concluded that adoption of systematic planning might not take place unless a strategic-planning orientation was adopted. Failure rates among firms with high-levels of formalized planning were significantly lower than among firms that had little or no formal planning.

The relationship between financial performance and planning within the small firm has also not been strongly supported by previous research, although there appears to be some relationship between planning and growth (Robinson and Pearce, 1983). This lack of strong evidence between formal planning and performance raises the question as to whether it is the plan or the process of planning is most important in determining the performance of small firms (Bracker and Pearson, 1986).

Does Business Planning Really Matter?

The evidence that possession of a formal written business plan makes it more likely a business will succeed is inconclusive. Most small firms do not possess written business plans (Unni, 1984) and many entrepreneurs lack business planning skills (Posner, 1985). A review of past research studies undertaken into the benefits of strategic business planning within small firms found a positive relationship between formal strategic planning and performance. Small firms can benefit from strategic planning particularly if it involves long-range thinking and systematic screening of opportunities (Schwenk & Shrader, 1993). Further studies that examined the nature of business planning activities undertaken by small firms suggest that a relationship exists between enhanced sales growth and the implementation of sophisticated business planning techniques (Berman, Gordon & Sussman, 1997).

In a study of 65 fast growth family owned businesses, the majority of companies had formal business plans. These were found to be sufficiently detailed to allow the company to control management compensation against performance benchmarks. Such firms regularly shared information with their employees and linked their company performance to business goals. Such firms were more likely to seek differentiation and innovation in products or services rather than competing on price (Upton, Teal & Felan, 2001).

A relationship exists between the size of the business venture and the level of formal planning activity that takes place. Not surprisingly the larger an organisation becomes the more likely it will engage in formal business planning. Larger firms tend to employ more professionally educated managers who may encourage the preparation of business plans. However, even though the entrepreneur may not possess a formal business plan, he or she is still likely to be engaged in informal or “intuitive” business planning (Mazzarol, 2001). As the venture grows in size or seeks to develop new markets or raise external funding, the necessity for a formal business plan and related planning process increases

Strategic Vision Not Strategic Planning

Bhide (2000) found that formal planning among successful entrepreneurs was rare, at least in the early stages of their business development. Only 28 percent of the successful entrepreneurs whom he studied had prepared a full-blown business plan prior to the launch of their new venture. Forty-one percent had not prepared any formal plan at all and 26 percent had only a rudimentary “back of the envelope” plan (Bhide, 1994). Of more importance was the ability of the entrepreneur to “hustle”, using their selling skills and communications ability, to secure strong market positions in industries where possession of proprietary assets were not the main basis of competition (Bhide, 1994; 2000).

A study by Ernst & Young (2004) of 135 winners of the Australian Entrepreneur of the Year Award found that the majority (72%) considered that their greatest contribution to their business venture was the ability to provide vision and focus. The most common motivation for these entrepreneurs in launching their venture was to create a business that would fulfil their vision of the future. According to Ernst & Young (2004):

A strong vision is an essential part of entrepreneurship but successful entrepreneurs also have the ability to plan the journey towards achieving their vision. The Entrepreneurs' Barometer found that forty-six percent of successful entrepreneurs nominated effective strategy as the key factor to the success of their business.

Eighty-five percent of the entrepreneurs surveyed by Ernst & Young (2004) were still engaged in active day to day management of their ventures and were largely optimistic about the future outlook for their firms. While only 36 percent were involved in export markets, at least half were seeking to move into global markets over the short to medium term (e.g. 2-3 years). The majority (60%) was seeking to raise external financial capital to assist with their business growth, but most were planning to use this funding to invest in the organic growth of their existing business model rather than to acquire other businesses. This suggests that these entrepreneurs had confidence in their own business models.

Borch and Huse (1993) studied 660 small firms and the relationship between their internal resources and the strategic orientation of their senior management. This study found four types of strategic orientation that compare with the Miles, Snow, Meyer and Coleman (1978) typology of “prospector”, “analyzer”, “defender” and “reactor” strategic types. These four types were: i) “managerial firms” – that tended to be analyzers making use of market strategies for enhanced competitive positioning; ii) “technological firms” – prospector types that used product development growth strategies involving innovation; iii) “traditional firms” – which were likely to avoid growth and risk; and iv) “impoverished firms” – that lacked any coherent strategy (Borch and Huse, 1993).

Balancing the Strategic Triangle

For entrepreneurs establishing new ventures the business planning process involves a balancing of three key elements: i) opportunity, ii) resources and iii) team (Timmons, 1999). The opportunity is usually a product of the entrepreneur’s own creativity or ability to spot a market opening within the market. There is usually a high degree of uncertainty associated with any entrepreneurial opportunity and the need to find resources to exploit it. The business plan becomes a process of communication that can assist the entrepreneur to secure needed

resources and guide the activities of the team. However, any business plan for an established and growing venture will need to address the interaction and management of three key elements: i) strategy, ii) structure and iii) resources, which form a “Strategic Triangle” (Mazzarol, 2005). A major challenge for the entrepreneur is to keep these three elements in balance.

Within strategy the most important focus is likely to be on the identification of the firm’s strategic intent comprising a clear vision and mission that can be used to guide the business and unite the firm’s key stakeholders, particularly the employees (Hamel and Prahalad, 1989). Also important in the setting of this strategy is the ability of the owner-manager within the small firm to identify a growth path or growth vector that can be followed when seeking to expand the firm over time (Ansoff, 1965). This growth vector is likely to involve finding either new products for existing markets (e.g. an innovation strategy), or new markets for existing products (e.g. market expansion strategy). As the firm expands in order to follow its designated strategy its structure is likely to be forced to change. Structure comprises the firm’s configuration of human, physical and financial resources and must be kept in alignment with any strategy (Chandler, 1962). A key feature of business planning is to harmonise the relationship between the firm’s structure and strategy.

The final consideration for the small business owner seeking growth is the issue of resources. Business strategy and planning is frequently associated with seeking to match resources to the business blueprint outlined in the structure and strategy. A problem for most small business owner-managers is a lack of resources. The opportunities for growth and the securing of a competitive advantage in selected markets is likely to be contingent on the capacity of the firm to assemble an appropriate mix of resources that offer value, uniqueness, uncertain imitability and no apparent substitutions (Barney, 1991). The owner-manager’s ability to leverage a network of internal and external relationships that can provide these resources is likely to be a key factor in their success (Jennings and Beaver, 1997).

Methodology

The study drew a sample of 204 small business owner-managers who were enrolled in a university-based management development course designed to teach them strategic and operational management skills to assist them to grow their businesses. This target population was therefore atypical of the general small business population and had indicated a growth orientation by choosing to enrol in the course. This course lasted approximately twelve months and the sample was selected from a series of annual cohorts over a seven year period.

Sample Demographics

The majority of the owner-managers selected for this study were male (88%) which is not untypical of the pattern of small business owner-managers found in most populations (ABS, 2002; Hankinson, 2000). All firms within the sample had less than 200 employees with the average being 20, and annual turnover ranged from as low as \$50,000 to a high of \$72 million with the average being \$2.5 million to \$3.5 million, placing these firms within the OECD parameters of small firms (OECD, 2004). The level of management sophistication in these firms was fairly low with an average of one professionally qualified manager employed (usually the owner-manager).

Strategic Intent of Owner-Managers

In terms of strategic intent 85 percent of the sample indicated that they planned to increase production in the future, with 45 percent indicating that they were intending to open new stores or outlets and 77 percent indicating an intention to launch new products or services. Only 30 percent indicated an intention to commence exporting, and only 20 percent indicated intent to sell equity in their firm. The majority had experienced growth over the previous four years with annual average turnovers rising from \$2.4 million to \$3.4 million. Only 28 percent of these owner-managers reported having a formal, written business plan.

Questionnaire Design

A questionnaire was developed from an original small business management framework proposed by Hall (1992). This framework comprises six key dimensions common to small high performance firms: i) focus and direction; ii) customerising; iii) partnering; iv) personality; v) quality; and vi) systems. The first of these relates to the vision and mission of the firm, the second to marketing and customer servicing issues translating broadly into the concept of “customer delight” (exceeding expectations). The issue of “partnering” involves developing working relationships with customers, suppliers, employees and other stakeholders (eg. banks, accountants and industry associations). “Personality” relates to organisational culture, but focuses more on the owner-manager's personality with which the small business culture is closely aligned. The “quality” dimension concerns formal quality assurance process and “systems” involves the development within the firm of systems (eg. financial control, information databases) to make the growth process work. This framework had originally been developed via a qualitative study with small firms in the United Kingdom (Hall, 1992), but had been subsequently analysed using a quantitative methodology and a small sample of 88 owner-managers from Australia (Mazzarol, 1999). It was further refined using an additional larger sample of owner-managers producing 35 separate factor variables grouped within the six original dimensions (Mazzarol, 2002). These factors are shown in the appendix of this paper.

The final questionnaire used in this study included 180 items measuring managerial behaviour and firm performance on 5-point Likert-type scales. In keeping with the original management performance framework outlined by Hall (1992) and Mazzarol (1999; 2002), each of the six dimensions was measured using 30 items grouped into five areas comprising six items in each area.

As noted above, the questionnaire also included items measuring the owner-managers' future growth intentions, levels of expenditure on training and marketing, and financial performance indicators in the form of gross income and profit figures for a four-year period. Prior to joining the university-based management development program each owner-manager was asked to complete the questionnaire and the findings were then discussed with them at a later training workshop which allowed the results to be validated from the perspective of respondent understanding of the questions.

Scale Development

Six separate principal component (factor) analyses were undertaken with the original set of 180 items. This was necessary in order to maintain the original framework comprising the six broad managerial dimensions (Hall, 1992; Mazzarol, 1999; 2002). From the original sample

of 204 owner-managers a final sample of 137 was selected due to the need to remove cases that contained missing or incomplete data. Each factor analysis involved 30 items and was examined prior to the procedure using measures of sampling adequacy (Kaiser-Meyer-Olkin and Bartlett's test of sphericity) each of which provided confidence that the data was suitable for factoring (KMO scores ranged from 0.77 to 0.88) (Hair, Anderson, Tatham and Black, 1992). The procedure was undertaken using a varimax rotation to generate a simple factor structure and factors were selected that had eigenvalues greater than 1 in keeping with the principal components approach. Scale reliability testing using Cronbach's alpha measure showed that all items within each factor were reliable (Cronbach, 1951).

Development of Planning and Growth Measures

The questionnaire included an item that asked if the respondent had a formal, written business plan. This item was subsequently used to examine the second of the three initial research questions. To examine the first question relating to the managerial factors associated with growth oriented small firms a new variable was developed from a composite of several items. Within the questionnaire respondents were asked a series of questions relating to their future intentions to: i) significantly increase production levels; ii) open new locations; iii) introduce new products or services; iv) open the same business elsewhere and v) sell equity in the business. These items were recorded on a binary "Yes-No" scale. They were subsequently combined into a new item (GROWTH) that differentiated those who were positive on these items compared to those that were not. Of the original sample of 204 owner-managers 79 percent were classified as growth focused.

To examine the third research question relating to the factors associated with small firms that grow faster than others, a further derived variable was created using the four years of annual turn over figures provided by each respondent. An annual average sales growth figure was estimated using these sales results that provided a measure of growth. Final results for this item (ANNUAL AVERAGE GROWTH) ranged from -295 percent to 61 percent with a mean annual average sales growth of 7 percent and a median figure of 12 percent.

Discriminant Analysis – Possession of Business Plan

A step-wise Discriminant Analysis was undertaken to assess the differences between owners who possessed a formal written business plan and those who did not. Discriminant Analysis is used to distinguish between two or more predefined groups and identifies those items that contribute most to any differences between such groups. Discriminant Analysis technique can involve one of three approaches: i) direct – all items are entered simultaneously; ii) hierarchical where order of entry is determined by the researcher; and iii) stepwise, where the statistical criteria alone determine the order of entry (Hair, et.al., 1992).

A total of 71 cases were used in the model from the original 204, the remainder being removed due to missing or out of range data. The discriminating variable was possession of a documented business plan. Rao's V was used to determine the inclusion of items in the model with a range from 0.05 to 0.10 significance levels of the F-statistics determining entry or removal. The minimum Rao's V for entry was 0. The Wilk's Lambda statistic for the final function was 0.782 (chi-square = 31.796; df = 3; significance = 0.000). The model produced a solution in three steps that identified three items: i) support network partnerships (function =

0.450); ii) ASA/ISO 9001 (function = 0.459); iii) Changing Beliefs and Attitudes (function = 0.582). The model correctly classified 71 percent of the cases.

The items that comprise these three factors are outlined in Table 1. It can be seen that “Support Networks Partnerships” was a factor comprising items relating to the ability of the owner-manager to leverage their professional support network, including bank manager, grants from government agencies and other sources. “ASA/ISO 9001” was comprised of items relating to the level of formal quality assurance taking place within the firm, and the factor “Changing Beliefs and Attitudes” was comprised of items relating to how well the owner-manager communicates with their employees to lead change within the firm. As shown in Table 1 owner-manager’s who possessed a formal written business plan were more likely to be positive about these items suggesting that they had stronger levels of support network partnerships, formal quality assurance and the capacity to change employee beliefs and attitudes toward change.

Table 1: Factors Associated with Possession of Formal Business Plan

Factors/Items	Plan <u>Mean</u>	No Plan <u>Mean</u>
Support Network Partnerships	3.39	2.82
▪ My bank manager gets regular information from me. **	3.26	2.69
▪ My business takes advantage of its support network.	3.21	2.96
▪ Our support network adds value to our business	3.47	3.19
▪ I am aware of, and have accessed, grants and expertise available to my business. **	3.07	2.23
▪ My business support network is clearly defined and well managed. **	3.38	2.91
ASA/ISO 9000	3.59	2.92
▪ All employees understand the significance to the business of introducing a quality system. **	3.30	2.62
▪ Top management is sincerely committed to achieve third-party accreditation. **	3.21	2.57
▪ My business already has documented procedures for key areas of operation. **	3.58	2.92
▪ I understand the definition of quality in terms of a documented quality system, i.e. ASA/ISO 9000. **	3.88	3.22
▪ ASA/ISO 9000 is relevant to our organization. **	3.15	2.73
Changing Beliefs and Attitudes	3.45	2.98
▪ I have a clear vision that is communicated to everyone. **	3.31	2.86
▪ I paint vivid pictures of the changes I want in my business to help people extend their comfort zones. **	3.37	2.95
▪ I make change an adventure rather than a threat.	3.46	3.28
▪ I have been very successful in changing beliefs and attitudes in my business. **	3.34	2.90
▪ My employees find change fun in my business. **	3.14	2.79

** p = < 0.05 suggesting differences between the two group means

Discriminant Analysis – Growth Focus

A further step-wise Discriminant Analysis was undertaken to assess the differences between owners who were rated as being growth oriented and those who were not, using the derived variable GROWTH. A total of 71 cases were used in the model from the original 204, the remainder being removed due to missing or out of range data. Rao's V was used to determine the inclusion of items in the model with a range from 0.05 to 0.10 significance levels of the F-statistics determining entry or removal. The minimum Rao's V for entry was 0. The Wilk's Lambda statistic for the final function was 0.938 (chi-square = 8.421; df = 1; significance = 0.004). The model produced a solution in a single step that identified one item: i) "shadow side". The model correctly classified 74 percent of the cases.

The items that comprise these three factors are outlined in Table 2. It can be seen that "The Shadow Side" factor was comprised of items relating to the culture of the firm and how the owner-manager seeks to engender a positive organisational culture through openness and self-reinforcing stories. As shown in Table 2 those firms that had positive growth orientation were more likely to have a positive response to this factor, particularly in relation to their efforts to achieve greater openness within the culture.

Table 2: Factors Associated with Growth Orientation

Factors/Items	Growth Mean	No Growth Mean
The Shadow Side	3.14	2.63
▪ I work hard at making covert aspects of our culture overt where appropriate. **	3.09	2.74
▪ I am happy with our 'war stories' - they support my business aims.	3.13	3.10

** p = < 0.05 suggesting differences between the two group means

Regression Analysis – Annual Average Sales Growth

A linear regression analysis was also undertaken to assess the differences between owners who had experienced above average growth in annual turn over against those who had lower annual turnover growth. Multiple Regression technique is a statistical procedure that estimates the relationship between a single dependent variable and several independent predictor variables. In estimating how well the independent variables predict the dependent variable each is given a weighting to indicate their relative contribution to the overall prediction qualities of the final model (Hair, et.al., 1995). Multiple linear regressions can be expressed in a model as follows:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \dots + \beta_p X_{pi} + e_i$$

Where:

Y_i = the dependent variable.

X_{pi} = the value of the p th independent variable for case i .

β terms = the unknown parameters of the model.

e_i terms = the independent random variables.

A stepwise procedure was used in the regression to assist the model development. A final model was produced after two steps. This model produced an adjusted R-square of 0.48 suggesting that the model explains around 48 percent of the variation in the data. The *F* statistics for the model ($F = 6.10$) was also significant ($p < 0.003$) indicating that the model does explain something in terms of a relationship between the independent and dependent variables (Holbert and Speece, 1993). Two variables were found significant within the model: i) Personal Vision (Beta = 0.239); and ii) Premium Pricing (Beta = -0.172).

Table 3: Factors Associated with Average Annual Sales Growth

Factors/Items	Low Sales Growth Mean	High Sales Growth Mean
Personal Vision	3.28	3.72
▪ I seem to find ways of moving towards my vision. **	3.04	3.53
▪ I have a clear vision for my business future.	3.55	3.71
▪ My vision changes as my dreams become reality. **	3.11	3.43
▪ My business is future-focused rather than being trapped by history (or how things used to be). **	3.30	3.88
Premium Pricing	3.01	3.31
▪ My business charges premium prices to reflect the real benefits we offer our customers. **	2.98	3.30
▪ My business has a significant price premium over our nearest competitor.	2.92	2.94
▪ Our quality allows us to charge premium prices	3.25	3.50

** $p < 0.05$ suggesting differences between the two group means

It can be seen from Table 3 that the factor “Personal Vision” was related to the owner-manager’s sense of personal direction for their business and how they felt they were working toward the achievement of this vision. The factor “Premium Pricing” was related to the firm’s ability to charge premium prices due to value adding over competitors. Of interest is that the owner-managers from firms experiencing higher than average annual sales growth were generally more positive in terms of their personal vision, but this was less so relation to the issue of premium pricing where differences were not significant.

Comparison of High and Low Annual Average Sales Growth

To further evaluate the differences between firms with above average annual sales growth from their counterparts with below average annual sales, a series of independent sample *t*-tests (two-tailed) were conducted. This separated the sample into two groups: i) firms with below average annual sales growth and ii) firms with above average annual sales growth. The cut point for this grouping was an average annual sales growth of 7 percent. The majority (69%) or 140 cases were grouped into the high average annual sales growth category, and the remaining 64 into the low average annual sales growth category.

Results for all significant factors are shown in Table 4. It can be seen that significant differences between high and low annual average sales growth forms were found in relation to ten factors: i) having a good capacity for environmental scanning; ii) having a clear personal vision for the business; iii) maintaining strong staff partnerships; iv) making good use of support network partnerships; v) having a balanced structure=strategy equation; vi) having a positive corporate image that is systematically cultivated; vii) having the ability to change beliefs and attitudes among employees; viii) having a strong level of innovativeness within the firm; ix) being ready to take action when required and x) possession of a business generating system.

Table 4: Factors Associated with High or Low Average Annual Sales Growth (*t*-tests)

Factors (all differences statistically significant) **	Low Sales Growth Mean	High Sales Growth Mean
Environmental Scanning – effectiveness of scanning environment	3.05	3.29
Personal Vision – sense of personal vision and direction by owner-manager	3.29	3.72
Staff Partnerships – owner-manager’s relationship with employees	3.08	3.42
Support Network Partnerships – leveraging of external support networks	2.80	3.09
Structure=Strategy – balance of organization structure with firm strategy	2.99	3.29
Image – firm branding, image and goodwill	3.52	3.77
Changing Beliefs and Attitudes – owner-manager’s ability to lead change	2.93	3.21
Innovation – innovativeness of employees	2.64	3.07
Taking Action – willingness to take action to achieve performance	3.13	3.47
Business Generating System – systematic sales generation processes	2.95	3.24

** p = < 0.05 suggesting differences between the two group means

Discussion of Findings

This study commenced by posing three research questions: i) what are the key managerial factors associated with growth oriented small firms; ii) is there a difference between the managerial behaviour of small business owners who adopt formal business planning and those who do not; and iii) what factors are associated with small firms that grow faster than others? Let us examine each of these questions in turn within the context of these findings.

Managerial factors associated with growth oriented small firms

These findings suggest that a defining feature of growth orientation in small firms may be their culture, with the owner-manager’s ability to foster openness in the team environment and avoid seeing the emergence of the “Shadow Side” of business. This suggests that a growth orientation (as measured by a desire to expand production, introduce new products, open new premises or share equity) may be associated with owner-managers who engage openly with their employees and aim to keep issues above rather than below the level of open discussion. This finding needs to be considered in the context of the sample being pre-selected from owner-managers who already appeared to have expressed a desire to grow their businesses.

Formal Business Planning versus Informal Business Planning

The possession of a documented business plan was found to be associated with strong use of support network partnerships, formal quality assurance practices and the ability of the owner-manager to lead change within their organisation through effective communication of their vision. It is not possible from these findings to determine if the owner-managers had developed a formal written business plan because of these qualities or if they had emerged as a result of them. Formal business planning and formal quality assurance measures would seem to be logically associated, and any small firm that was accredited with ISO/ASA 9001 quality assurance would need to develop formal business plans. The relationship with the support network might also be explained in terms of the need for the owner-manager to use a business plan as a communications tool when speaking to bank managers or seeking to access grants from the government. Most business support networks involve professional advisors who will usually require or at least encourage the development of a formal documented business plan.

Factors associated with faster growth

Above average sales performance over a four-year period is not necessarily a measure of long term success, but it does provide a useful measure of growth. The findings from this analysis suggest that owner-managers who have above average sales growth may be more likely to have a clear personal vision for their business and to view value adding that might lead to premium pricing opportunities as a means of achieving such growth. The findings also point to the potential importance of owner-managers having a good capacity for environmental scanning to collect market intelligence, spot threats and opportunities and seek to get in some control of environmental influences. Their ability to forge working partnerships with employees and to balance the firm's structure with its strategy, keeping the right mix of staff to service customer needs also seems important. Other factors that might be associated with faster than average growth are the owner-manager's ability to develop a strong corporate image and goodwill within the market, to have good levels of innovation through employees and the willingness to take corrective action when key performance indicators (KPI) suggest that change is required.

Finally, the possession of a business generating system was found to be associated with high than average annual sales growth. This business generating system was measure by having a clear sense of what products or services were selling in given markets and focusing on these. Important elements of this business generating system were having employees who were viewed as effective sales people, and having a "problem seeking, problem solving" approach to business generation. Also important within the business generating system was the allocation of resources for the development of new markets.

Conclusions

These findings have implications for the education of entrepreneurs within small companies, suggesting that they should focus on developing managerial systems to benchmark their business against industry best practice. Entrepreneurs also need to be alert to environmental changes, committed to innovation and willing to change or take action if required. However, they should also recognise the importance of possessing a clear strategic vision for their venture, and the need to communicate this to others, particularly employees.

The possession of a formal, documented business plan is not necessarily a guarantee of successful growth within a small firm, however, as the owner-manager seeks to communicate their intentions within their wider support network it is likely that they will need to prepare such plans. Applying for government support grants or bank loans will generally require the development of a written business plan, as will the move to achieve formal quality assurance recognition.

Most small business owner-managers plan intuitively and the majority avoid commitment to formal business plans until external forces require it from them. Owner-managers seeking to grow are likely to benefit from a supportive organisational culture, where employees are willing to commit to future change and engaged actively with the owner in enhancing quality, developing new products and services, and eventually offering sufficient value adding to command a premium price. However, the personal vision of the owner-manager is likely to be a critical element in this. As noted in the literature review for this paper, the most important thing is not the drafting of a business plan, but the owner-manager's ability to think and act in a strategic way. Too many small business owner-managers suffer from strategic myopia, a condition characterised by a short sighted focus on the daily operational matters that the ownership of a small firm demands. It is important for small business owner-managers to develop strategic thinking skills that allow them to stand back from the mundane and look holistically at their business and its environmental context.

The findings support the conceptual framework of the "Strategic Triangle" (Mazzarol, 2005) pointing to a relationship between growth and a combination of strategic, structural and resource related issues. They suggest the need for owner-managers to have a clear strategic vision for their business, the capacity to scan the environment and balance strategy and structure via team leadership, change management and culture. Their ability to secure the resources they need is likely to be associated with their leveraging of support network partnerships and cultivation of similar relationships with employees.

For policy makers and educators seeking to assist small businesses attention should be given to the development of strategic thinking skills. These can be developed via education programs that foster creativity, strategic thought, critical analysis, team work and strategic networking. While some focus should be given to planning skills, the task of drafting a plan is something that should follow the development of strategic thinking skills rather than lead it. Formal education programs in business management need to be flexible and tailored to the needs of the small firm sector, where owner-managers are typically busy and lack time to commit to lengthy courses. Furthermore, the curriculum for small business education needs to be focus less upon technical skills development (e.g. accounting or marketing skills), and more on team building, leadership, creative thinking and the ability to apply strategic management principles to the company.

The study has some limitations. It draws upon a small sample from a single country and a population that is somewhat atypical in nature. While useful, the use of annual average turnover and future expansion intentions as growth measures has some weakness. Future research should seek to capture a larger sample and perhaps track performance over time using longitudinal data sets. A more robust measure of growth and performance would be desirable that includes employees, sales turnover, profitability and capitalisation.

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Appendix: Factors identified in the Study (Mazzarol, 2002)

<u>Factor</u>	<u>Mean</u>	<u>Std. Dev.</u>	<u>Alpha</u>
<i>Focus/Direction Dimension:</i>			
Mission – clear sense of mission	2.90	1.07	0.95
Core Skills – understands distinctive competencies	3.65	0.66	0.85
Key resources – possesses key resources	3.21	0.71	0.81
Environmental Scanning – environmental monitoring	3.22	0.67	0.80
Personal Vision – owner’s sense of future direction	3.59	0.78	0.78
Leadership Vision – communicating vision to staff	3.13	0.92	0.82
<i>Customerising Dimension:</i>			
Customer Delight – customer commitment/delight	3.70	0.54	0.90
Networking – owner’s networking ability	3.00	0.74	0.68
<i>Partnering Dimension:</i>			
Supplier Partnerships – firm’s relationship with suppliers	3.49	0.84	0.85
Staff Partnerships – firm’s relationship with staff	3.31	0.76	0.86
Customer Partnership – firm’s relationship with customers	3.67	0.64	0.82
Support Network Partnership – relations with bank etc.	3.00	0.76	0.78
Partnership Orientation – owner’s propensity to partner	3.63	0.84	0.86
Structure=Strategy – fit between firm strategy and structure	3.20	0.80	0.67
<i>Personality Dimension:</i>			
Image – firm’s image in the market	3.70	0.68	0.90
Business Values – owner’s personal values for business	3.77	0.67	0.86
Role Modelling – owner’s role modelling to staff	3.15	0.70	0.75
Personal Change Readiness – owner’s change readiness	3.70	0.64	0.66
Business Change Readiness – firm’s change readiness	3.12	0.67	0.69
The “Shadow Side” – unwritten ground rules	3.05	0.75	0.57
Psychometric Testing – use of formal tests for staff selection	1.95	1.08	0.57
Organisational Culture – fit between firm culture and aims	3.20	0.63	0.58
<i>Quality Dimension:</i>			
Right Product/Services – delivery of right products to market	3.75	0.57	0.81
ASA/ISO 9000 – level of formal quality assurance	3.13	0.99	0.79
Changing Beliefs and Attitudes – owner’s role in change	3.13	0.65	0.81
Defining Quality – firm’s understanding of quality	3.74	0.67	0.85
Premium Pricing – value adding that leads to premium prices	3.22	0.86	0.83
Innovativeness – staff levels of innovative behaviour	2.95	0.91	0.81
Not Price Sensitive – firm’s ability to avoid price competition	2.56	0.92	0.78
<i>Systems Dimension:</i>			
Key indicators – firm’s monitoring of key performance data	2.58	0.86	0.91
Taking action – owner/firm’s willingness to act on KPI’s	3.36	0.77	0.86
Critical Information – firm’s analysis of cost/control	3.28	0.84	0.87
Information Systems – firm’s use of computer/IT systems	3.16	0.80	0.85
Market Research Data – firm’s use of market research data	2.87	0.76	0.72
Financial Control – firm’s financial resources and control systems	3.01	0.84	0.49