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How do small business managers make strategic marketing decisions?

Strategic
marketing
decisions

A model of process

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Abstract Argues that a deeper understanding of the current strategic marketing decision-making processes in small businesses is necessary to raise the acceptance rates of interventions to improve the quality of strategic marketing decisions and consequently firm performance. Despite extensive interventionist efforts focussed primarily upon application of theory derived from large organisation studies, the small business sector continues to be plagued by high failure rates and poor performance levels. In this study, a comprehensive literature review and a series of six in-depth interviews are used to develop a theoretical research framework for the strategic marketing decision-making process in small business. Second, 46 strategic marketing decisions drawn from 32 small businesses are examined within the context of the research framework and, finally, a model of strategic marketing decision-making process in small business is proposed. The core of the model is a series of three loosely defined steps or tasks ("information gathering/research", "financial analyses and assessments" and "internal matters"), which are conducted non-sequentially but preceded by "decision initiation" and followed by "final commitment". Furthermore, the key "methods" used in carrying out these steps or tasks are identified and classified into learned competencies, inherent competencies, internal networks and external networks.

Background

While remaining a significant contributor to the economic and social well being of Australia and other countries (Peacock, 1999; Australian Bureau of Statistics, 1995a,b), the small business sector continues to be plagued by high failure rates and poor performance levels variously caused by competitive pressures, rapid technological change, volatile markets and burgeoning regulation (Davig and Brown, 1992), despite significant interventions by Government and professional advisors (Culkin and Smith, 2000; Lepnurm and Bergh, 1995). While most remedies to date have been financially based (Corman and Lussier, 1996), these unsatisfactory performances and inappropriate interventions may be caused by poor strategic marketing decisions (Kotler, 2000; Corman and Lussier, 1996), and inadequate understandings of how small businesses currently make their strategic marketing decisions (Culkin and Smith, 2000). This paper contributes by utilising a multiple case methodology to develop a model of strategic marketing decision-making practice in small businesses. The paper is justified on five main grounds. First, the small business sector is a significant contributor to employment (Peacock, 1999), gross national product (Australian Bureau of Statistics, 1995a,b), globalisation (Graham, 1999; Brown and Jocumsen, 1994) and



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innovation (Mazzarol and Ramaseshan, 1996). Second, high failure rates and marginal performance levels continue to characterise the small business sector. Third, there are established links among strategic marketing decision-making process, the quality of strategic marketing decisions themselves and eventual performance outcomes of the business (Dean and Sharfman, 1996; Harrison and Pelletier, 1995). Fourth, the application of analytical, “tool-box”, formal and “rational” methods drawn primarily from large organisation research to the small business sector have had limited success only (Mintzberg, 1994; Carson and Cromie, 1990), partly due to insufficient attention being paid to the wide variety of contexts and environments associated with small businesses. Finally, effective intervention to improve the strategic marketing decision-making processes in small businesses requires a deep understanding of current processes (Culkin and Smith, 2000; Chaston, 1997).

Definitions of key terms and constructs

The key terms and constructs relevant to building a model of strategic marketing decision-making process in small business include: strategic marketing decision, small business, process, methods, internal contextual factors and external contextual factors. First, strategic marketing decisions within a small business are those marketing related decisions of significant importance to the firm in terms of business and financial performance, long-term survival and the significant impacts they have upon all or most of the other functional areas of the business. Second, small businesses are those which are of “small” size in the contexts of their particular industries and have significant independent and principal power of decision making residing in single individuals, with ownership usually but not necessarily residing in management. Third, process is defined here as the category of concepts or variables that refers to the behaviours and actions of individual small business decision makers over the period between the emergence of the need for a strategic marketing decision and the final commitment to make it (Van de Ven, 1992). Fourth, methods represent the means by which the small business operator conducts each phase or step of the strategic decision-making process. Fifth, internal contextual factors are those characteristics associated with the manager decision maker and the business or organisation itself which may impact upon the ways in which strategic marketing decision making is conducted and, finally, external contextual factors are those forces external to the business which may impact upon the ways in which strategic marketing decision making is conducted.

Methodology

This research is concerned with theory building (rather than theory testing) within the scientific paradigm of realism (Guba and Lincoln, 1994), and hence the case study method utilising largely qualitative data sources has been chosen as the preferred methodology (Yin, 1994; Easton, 1992). The research strategies, practices and procedures adopted for this research included:

- (1) Conduct of a multidisciplinary literature review.
- (2) Conduct of six in-depth interviews. Each interviewee selected was familiar with strategic marketing decision making in smaller businesses, and had a sound background knowledge of the research issues being investigated. Furthermore, a range of perspectives was sought, as well as maximum

variation and heterogeneity (Dick, 1990; Patton, 1990). Each interviewee had been involved in at least one strategic marketing decision of a small business and had sufficient knowledge and willingness to address the issues comprehensively.

The specific in-depth interviewees included: a corporate executive and experienced general manager and training expert who served as general manager of a significant small business for many years, an authoritative academic and small business consultant currently researching, consulting and teaching at a major university, a senior public servant of many years' standing who was involved with advising and facilitating for rural and regionally-based smaller businesses (with a particular emphasis on value adding and exporting), a sole proprietor practicing accountant who specialised in small to medium-sized businesses including agricultural businesses, an experienced and well respected consultant to small and medium-sized businesses and public service organisations for over ten years and a very experienced general manager, company board member and consultant who has had extensive practical managerial experience at a high level. The in-depth interviewees selected were well suited for the purposes of the exploratory phase of this research.

- (3) Development of a theoretical research framework based upon results from (1) and (2) above.
- (4) Formulation of research propositions from the research framework developed in (3) above.
- (5) Confirming or disconfirming the research propositions through a comprehensive examination of 46 strategic marketing decisions drawn from 32 small businesses. A convenience sampling process was utilised here, achieving theoretical and literal replication through selection of four small business cases drawn from each of four industry groups and two size categories, making a sample total of 32 small businesses. Multiple decisions within some small businesses resulted in 46 strategic marketing decisions.
- (6) Proposing a model of strategic marketing decision-making process based upon results from (5) above.

The main data collection instrument used in this research was the interview protocol which was subjected to increased specification and refinement progressively through four stages, namely first in-depth interview, remaining five in-depth interviews, first 22 confirmatory case studies and remaining ten case studies respectively (Jocumsen, 2002). All six in-depth interviews and the first 22 confirmatory case studies were audio taped, while the remaining ten cases, using the most specified protocol were not audio taped. All data collected were analysed through Excel, via NUDIST in the case of the in-depth interviews and first 22 cases and via completed protocols and notes in the remaining ten cases. NUDIST facilitated initial classification and manipulation of data while EXCEL facilitated detailed within case and between case analyses.

In implementing the research strategies, practices and procedures, care was taken to follow documented practices to maximise validity and reliability (Jocumsen, 2002).

Results

Literature review

A detailed review of relevant literature revealed little reference to strategic marketing decision-making process specifically. Hence, in order to build a theoretical research model of such process, the broader strategic management, decision-making process, marketing and marketing strategy literature was consulted. From this, a large body of research supported the proposition that any strategic decision-making process can be depicted as a series of “steps”, “things done” or “phases” (Table I), and that these are conducted in numerous “ways”, “means” or “methods” (Table II). Furthermore, there is wide acknowledgement of the influences of contextual factors upon the strategic decision-making process (Table III). It was found also that “methods” could be usefully classified into competencies and networks and “context” classified into external and internal. After examination of the literature sources, competencies were classified into “learned” and “inherent”. Learned competencies were defined as including those acquired in some formal structured way through education and training and represent skills which can be readily measured and assessed, while inherent competencies were defined as those characterising behaviours and thinking traits generally acquired outside formal educational and training processes. The results of the multidisciplinary literature review were grouped into steps, methods and context.

The specific steps which emerged included: decision emergence, diagnosis and initial intelligence gathering, selection of decision criteria and weights, data collection and analysis, alternatives development and evaluation, emergence of favoured decision option, final detailed assessment and final commitment (Table I). Furthermore, while the normative literature implies some degree of sequentiality of steps in process

Steps/phases	Literature support
Acknowledgement of existence	Johnson and Scholes, 1999; Aaker, 1998; Ferrell <i>et al.</i> , 1994; Wheelan and Hunger, 1992; Fahey, 1981
Decision emergence/need	Aaker, 1998; Stacey, 1996; Robbins, 1994; Nutt, 1993; Van de Ven, 1992; Vecchio <i>et al.</i> , 1992; Mintzberg, 1987
Diagnosis/initial intelligence gathering	Johnson and Scholes, 1999; Nelson and Quick, 1997
Decision criteria and weights Data collection/analysis	Nelson and Quick, 1997; Robbins, 1994 Johnson and Scholes, 1999; Ivancevish <i>et al.</i> , 1997; Mintzberg, 1987
Alternatives development/evaluation	Johnson and Scholes, 1999; Aaker, 1998; Mowen and Gaeth, 1992.
Favoured option emerges	Aaker, 1998.
Final detailed assessment	Johnson and Scholes, 1999; Aaker, 1998; Harrison, 1996
Committment	Johnson and Scholes, 1999; Aaker, 1998; Eisenhardt and Zbaracki, 1992; Quinn, 1980
Are steps conducted sequentially or iteratively?	Iterative: Carson <i>et al.</i> , 1998; Gibb and Scott, 1985; Van Hoorn, 1979. Sequential: Johnson and Scholes, 1999; Ferrell <i>et al.</i> , 1994; Aaker, 1998

Source: developed for this research

Table I.
Strategic decision-making steps/phases identified in literature

Methods used in process	Literature support
1. <i>Learned competencies</i>	
Rationality	Browne and Forster, 1995; Mintzberg, 1993; Simon, 1964
Formality	Mintzberg, 1993; Fredrickson, 1983
Written activity	Day and Fahey, 1988
Analytical tools utilized	Callahan and Cassar, 1995; Coles and Rowley, 1995; Herbig <i>et al.</i> , 1993
2. <i>Inherent competencies</i>	
Intuition/gut feel	Robinson and Pearce, 1984; Lenz and Lyles, 1985; Mintzberg <i>et al.</i> , 1976
Heuristics	Browne and Forster, 1995; Barnes, 1984
Creativity	Sudsharshan, 1995; Urban and Star, 1991; Sexton and van Auken, 1985
Strategic thinking	Mintzberg, 1993; Hall and Saias, 1980
3. <i>Internal networking</i>	
Informal and formal employee group processes	Lepnurm and Bergh, 1995; Vecchio <i>et al.</i> , 1992; Nelson and Quick, 1997
Family involvement	Daily and Thompson, 1994; Gundry and Welsch, 1994; Covin, 1994
4. <i>External networking</i>	
Assistance from outside firm	Singer, 1994; Saxton, 1995

Source: developed for this research

Table II.
Methods used in strategic
decision-making process
identified in the literature

Contextual factors	Literature support
1. <i>Internal</i>	
Decision type	Mintzberg, 1993; Perry, 1992; Robbins, 1994; Schweiger <i>et al.</i> , 1989
Manager characteristics	Cox, 1993; Bracker and Pearson, 1986; Gibb and Scott, 1985; Hornaday and Wheatley, 1986
Business characteristics	Carson, 1993; Fredrickson, 1983; Bracker and Pearson, 1986; Gibb and Scott, 1985; Horowitz and Thietart, 1982; McKenna and Orbitt, 1981; Webster, 1974
2. <i>External</i>	
Stakeholders	Perry, 1992
Regulation	Perry, 1988; Fredrickson, 1983
Competitive and industry factors	Pablo, 1999; Chorn, 1996; Eisenhardt and Bourgeois, 1988; Porter, 1985
Financial	Glen and Weerawaradena, 1996
Technology	Styles and Uncles, 1998

Source: developed for this research

Table III.
Contextual factors
influencing strategic
decision-making process
in the literature

(Johnson and Scholes, 1999), nevertheless considerable support remains for the iterative option (Table I).

Results from the literature pertaining to methods suggested that the methods used in conducting the steps in the strategic marketing decision-making process could be

classified into learned and inherent competencies and internal and external networks (Table II).

Furthermore, the inherent competencies identified included intuition/gut feel, heuristics, creativity and strategic thinking, while the learned competencies included rationality, formality, written activity and analytical tools utilised (Table II). Assistance sources outside the firm included professional experts, financing bodies, public supported agencies and other businesses. The separation of steps from the methods employed to conduct them implies that the theories to date of strategic decision making, expressed as they are as all-embracing descriptors such as “rational”, “formal”, “incremental” and “satisficing” (Mintzberg, 1993; Whittington, 1993; Ansoff, 1987), inadequately model strategic marketing decision-making practice. Implicit in acceptance of such theories is that all steps in decision process are carried out in essentially similar fashions. This has been one factor mitigating against the emergence of a universally accepted theory of strategic (marketing) decision making generally (Ansoff, 1987, author’s brackets).

The literature showed that there is support for classifying contextual factors into internal and external (Table III). Further, internal factors may be categorised into decision type, manager characteristics and business characteristics, and external factors into stakeholders, regulation, competitive and industry, financial and technological (Table III). These factors have been shown to have various impacts upon the processes used by organisations in making their strategic (marketing) decisions.

Exploratory in-depth interviews

These interviews contributed empirical evidence and knowledge from selected experts to complement the findings from the published literature.

Most respondents supported the proposition that there are steps or “specific things which are done” in strategic decision-making process in small businesses although these may not be clearly defined as such. Comments included “a lot of steps are going on in the head of the decision maker”, “steps in process often evolve as you go along” and “steps used vary among small business managers”. Some of the steps specifically referred to included initiation/emergence, market research, detailed financial analysis, final commitment, consideration of personal goals, some form of self assessment, action to seek “buy in” from employees, some form of assessment of the environment outside the firm, assessment of taxation and financing implications, alternative identification and consideration of ethical and social responsibility issues.

Under learned competencies, the terms “rational” and “formal” were raised frequently by respondents when describing how small businesses made their strategic marketing decisions. Further, reference was made to the amount of written activity and the use of analytical tools and methods. Under inherent competencies, all respondents mentioned the significant roles of intuition, instinct and gut feel in small business strategic marketing decision making. Mention was also made of the capacity of small business owners to “look behind” the “figures” to find out “what is really happening”. The role of emotion in process was raised, as was the role of historically entrenched approaches to decision making. One respondent observed that small business operators may not proceed with a major decision unless they “feel” that it is the “right” thing to do.

Under internal networking, the role of family in small business strategic marketing decision making was raised by all respondents. This included the continuing influence of a “founding father” long after departure from the day-to-day operations, as well as the roles of spouses and younger family members in process. Consultation with employees was raised, including the possible emergence of internal politics as an influencing force in marketing decision making. Under external networking, the potential roles of numerous outside assistance sources was raised by most respondents.

Under external contextual factors, each respondent acknowledged the role of external factors in influencing strategic marketing decision-making process. The specific factors mentioned here included: turbulence and uncertainty within markets and industries, taxation, industrial relations policies and legislation, exchange rates, political instability (domestic and overseas), availability of finance, technology and the regulatory environment (chemical usage, protection, trade practices). Under internal contextual factors, each respondent mentioned the roles of the experience, background, education and risk propensity of the small business manager, the type of business and industry involved and the nature of the actual decision as factors influencing the process used to make strategic marketing decisions.

Theoretical research framework

The findings from the comprehensive literature review and exploratory in-depth interview study were consolidated (care exercised to ensure no loss of data from literature or in-depth interviews) to develop a theoretical research framework which contained *all* potential components of the strategic marketing decision-making process in small business revealed by both the multidisciplinary literature review and the exploratory in-depth interviews (Figure 1). The research framework showed that steps and methods used are intimately related to each other (in immediate proximity to each other) and that external and internal contexts are impacting variables only upon both steps and methods used (separated by space and arrows). This framework provided a means to make sense out of a disparate, fragmented, large organisation focussed and multidisciplinary literature which contained little on strategic decision-making process generally and nothing about the strategic marketing decision-making process in small businesses in particular.

Research questions and propositions

There were two research questions and four research propositions derived from the theoretical research framework for confirmation or disconfirmation in the confirmatory case study phase of the research. The two research questions were:

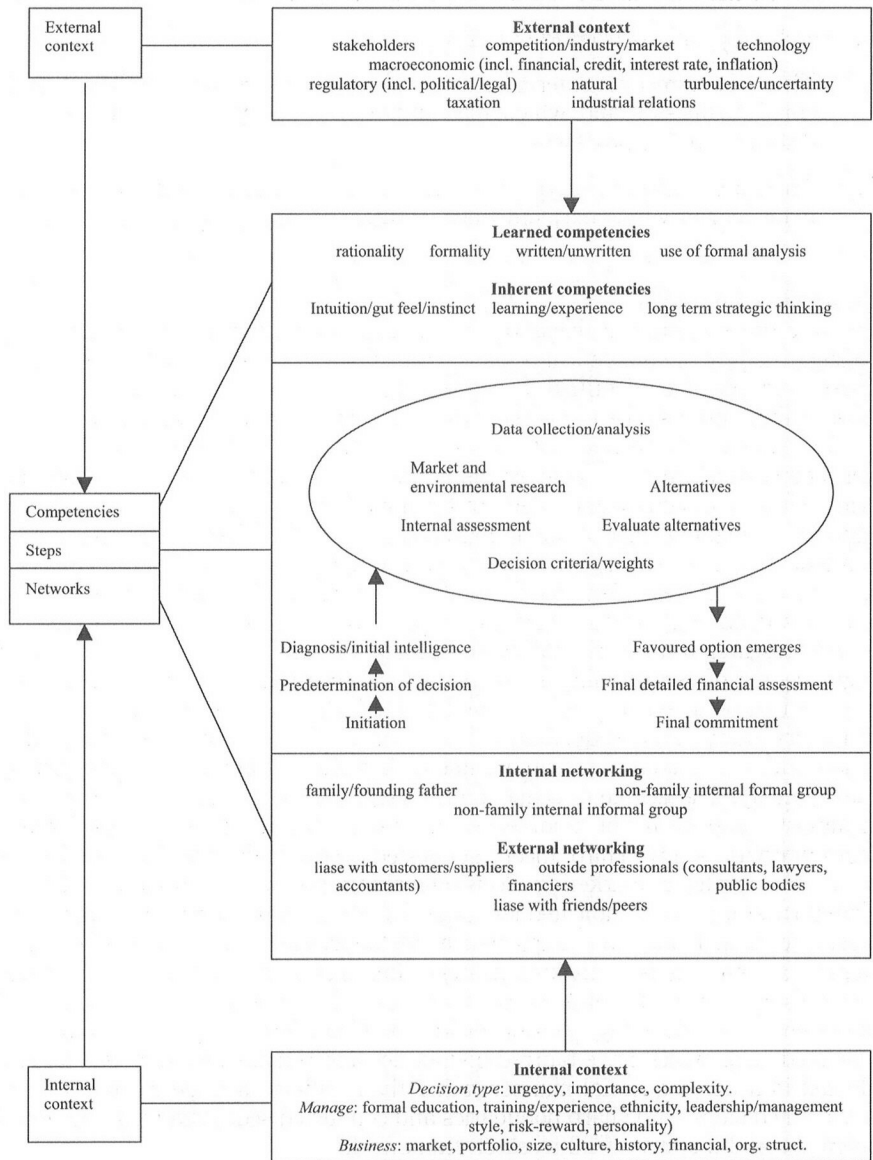
RQ1. How do small business managers make their strategic marketing decisions?

RQ2. Why do small business managers make their strategic marketing decisions in the ways they do?

The research propositions (RP) from *RQ1* were:

RP1. Small businesses undertake a series of well-defined, clearly-delineated and sequential steps in making strategic marketing decisions.

RP2. The methods which small business owner managers use to carry out the various steps of strategic marketing decision making can be classified into



Source: Developed for this research

Figure 1.
Theoretical research
framework for strategic
marketing
decision-making process
in small business



learned competencies, inherent competencies, internal networks and external networks. Furthermore, each of these methods are used by the small business owner manager in making strategic marketing decisions.

The research propositions from *RQ2* were:

RP3. There are numerous external contextual factors which strongly impact upon small businesses and which may influence their operations and strategic decision-making processes.

RP4. There are numerous internal contextual factors characterising operations and management which may influence strategic decision-making processes.

Confirmatory case studies

There were three significant deviations in the confirmatory case study results from those suggested by the theoretical research framework in relation to *RP1*. First, small businesses in practice identified fewer distinct steps in the strategic marketing decision-making process than those suggested by the theoretical research framework. The five steps confirmed of initiation, final commitment, information gathering/research, financial analyses/assessments and internal matters embraced the vast majority of activities carried out by small business owner managers during the process of making their strategic marketing decisions. These steps give a more accurate picture of the strategic marketing decision-making process in small business practice than the 12 steps identified in the theoretical research framework. Second, the degree of sequentiality in the way the steps were conducted varied between the theoretical research framework and the confirmatory study. Theory suggested a much stronger degree of sequentiality than that which occurred in practice. Apart from decision initiation preceding final commitment, little evidence emerged from the confirmatory study of any sequentiality in conduct of the decision steps. This finding contrasts with the theoretical research framework in which numerous steps are carried out sequentially. The degree of sequentiality suggested by theory alone would have been almost complete if not modified somewhat by the results of the exploratory in-depth interview study. Third, theory suggested clearly defined and well delineated steps in the strategic marketing decision-making process, contrasting with the confirmatory study which indicated less clear definitions and a blurring of boundaries between steps. In reality, the steps which are undertaken by small businesses in strategic marketing decision-making process often merge with others and the points where one step stops and another starts may not be clear. In summary, for *RP2*, small business strategic marketing decision making is characterised by five “reasonably” well-defined steps which have blurred boundaries and considerable overlaps and are conducted in a non-sequential manner rather than utilising a large number of very clearly defined steps with sharp boundaries and conducted sequentially, as suggested by literature and the theoretical research framework.

In relation to *RP2*, six main comparisons and contrasts were identified when comparing the confirmatory case study results with the theoretical research framework. First, from the confirmatory study, all methods used in process were able to be classified into learned and inherent competencies and internal and external networks, as suggested by the theoretical research framework. Second, while both the

theoretical research framework and the confirmatory case study suggested that learned competencies were used widely, use of learned competencies in the confirmatory cases was restricted to “simple” analyses using rudimentary tools such as budgets and a “reasonable” amount of written activity as contrasted with the theoretical research framework, which suggested wider use of more sophisticated analytical tools. Furthermore, “rationality” as a learned competency has quite a different meaning to the confirmatory case respondents than that suggested by theory. Most respondents perceived themselves as acting rationally if they acted “sensibly” or “financially responsibly” in attempting to achieve goals for their businesses. This contrasts sharply with theory’s rigid definition of rationality which centers upon objectivity, maximisation of goals, perfect information and application of “pure reason” and formal logic principles. Third, inherent competencies were used more extensively in the confirmatory cases than suggested by the theoretical research framework. However, intuition and gut feel dominated in the small business cases as contrasted with wider use of inherent “tools” such as heuristics, creativity and strategic thinking suggested by the theoretical research framework. Fourth, while both the theoretical research framework and the findings of the confirmatory study suggested extensive use of internal networks, the latter was dominated by family-related interactions. Finally, the confirmatory cases were characterised by a very low utilisation of external networking as contrasted with the much greater use of external networks suggested by the theoretical research framework. Hence, in summary, the confirmatory cases suggested that small business owner managers make extensive use of learned competencies in the forms of “perceived” rationality, use of rudimentary analytical tools and considerable written activity. Further, they make equally extensive use of inherent competencies, mostly in the form of intuition and gut feel, which are acknowledged by respondents as arising from both innate sources and learning experiences. Finally, use of internal networks was restricted almost exclusively to family and use of external networks was minimal and restricted to bankers, accountants and Government departments.

In relation to *RP3*, while the theoretical research framework suggested many potential impacting external environmental forces upon the strategic marketing decision-making process, nevertheless, the confirmatory study found that, with minor exceptions, the processes followed by small business owner operators were not influenced by external factors.

In relation to *RP4*, respondents in the confirmatory study classified internal factors in ways in agreement with those suggested by the theoretical research framework. These included nature of the strategic decision, manager traits and business characteristics. Furthermore, the confirmatory study suggested a more limited range of internal factors (decision importance, firm size, success of business, organisational structure, education level of manager and risk tolerance of manager) which influenced the strategic marketing decision-making process than the more extensive list suggested by the theoretical research framework.

Model

The results of the confirmatory study were distilled into a proposed model of the strategic marketing decision-making process in small businesses. The model is comprised of a decision initiation step, a final commitment step and three intervening

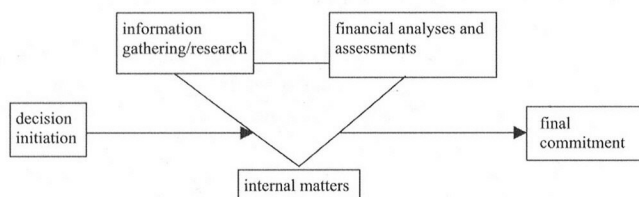
iterative steps of information gathering/research, financial analyses and assessments and internal matters (Figure 2).

Discussion and implications

This study has found that small businesses follow a much less complex process (both in terms of steps followed and the methods used to carry out the steps) in making their strategic marketing decisions than that suggested by the theoretical research framework, based largely, as it was, on research findings derived from studies of strategy development and strategic decision-making processes generally of larger organisations. It is suggested here that this knowledge will improve the chances of introducing potentially beneficial change in strategic marketing decision-making practice into small businesses. This can be achieved in two main ways.

First, the iterative steps or tasks of “information gathering/research”, “financial analyses and assessment” and “internal matters” should be understood and accepted by advisors and interventionists rather than “destroyed” or “ignored” in the process of imposing a series of steps derived from theory based upon large business experience. That is, improved or enhanced steps or tasks should be built upon the three steps in a constructive way. The interventionist process should begin with full acceptance of current strategic marketing decision-making practice as the building block for improvement rather than jettisoning it in favour of an “alien”, unfamiliar process in the eyes and experiences of the small business decision maker. For example, if it is determined that the strategic marketing decision-making process could be improved (that is, produce “better” strategic marketing decision outcomes) by introducing a new step of “formulation of strategic marketing decision options”, then this should be attempted only within the “three step” framework of the derived model. This could be done within the steps of information gathering/research and financial analyses and assessment.

Second, likewise, the methods currently used in strategic marketing decision-making practice should be fully accepted before attempting to introduce changes to methods deemed supportive of producing better strategic marketing decision outcomes. For example, it should be accepted that small business decision makers believe they act in highly rational and objective ways, that they do use some



Where:

- **information gathering/research** includes, for example, marketing related research, general information gathering, technical issues and information about the general environment.
- **financial analyses and assessments** include financial analysis, budgeting, spreadsheet analyses, and examining alternative options.
- **internal matters** include longer-term business view, goal setting, family, personal and lifestyle considerations, ethical and social considerations.

Source: Adapted from figure 6.2 p. 266 of *How small businesses make strategic marketing decisions*, Jocusen (2002)

Figure 2.
Proposed model of
strategic marketing
decision making in small
businesses

(simple) analytical tools, that they do make extensive use of gut feel and intuition, that they do place much reliance upon past decision experiences, that they rely upon internal advice only to a limited extent and they do utilise advice from business associates much more than that from outside professionals. Hence, changes to methods should be presented within the context of these current ways in which small business operators go about their strategic marketing decision-making processes. For example, advisors should accept the current low level of use of outside professional advice and seek to understand underlying reasons for this rather than prescribing how the decision maker *should* make fuller use of such available advice.

In conclusion, the deeper knowledge of current strategic marketing decision-making practice will enable advisors and interventionists to practice an empathic, supportive and constructive approach to implementing change in strategic decision-making practice in small business, thereby enhancing chances of success.

Further research

Further research will further investigate possible relationships between strategic marketing decision-making process and selected internal and external contextual variables such as education level of decision maker, age, gender, type of business, industry category, business size and geographic location. Findings here may further deepen the understanding of strategic marketing decision-making practice in small business and hence adapt interventionist approaches to specific contextual circumstances. In addition, possible relationships between strategic marketing decision-making process and firm performance will be investigated.

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