Managerial strategies in small, fast-growing manufacturing firms

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Received April 2010
Revised October 2010
Accepted December 2010

Abstract

Purpose – The purpose of this paper is to create a better understanding of the strategic management behavior of top managers in small, fast-growing manufacturing firms.

Design/methodology/approach – Empirical data have been collected in Sweden through both a survey of the 100 fastest growing small firms during 2000 and the development five years after (2001-2006), as well as through structured observations of the working days of top managers in six fast-growing manufacturing small firms.

Findings – Managers in small, fast-growing manufacturing firms are engaged in many different activities. However, a few activities tend to take the majority of their time. These activities are either operational (for instance, activities related to production, marketing and sales) or administrative (for instance, activities related to the firms' personnel and to financial issues). Looking at the managers' activities from a strategy management point of view, they spend very little time on strategic activities. This finding may explain why firm growth in many cases declines or even ceases.

Originality/value – The paper contributes to the theoretical and empirical literature on strategic processes in small, fast-growing manufacturing firms by showing that the majority of their managers use a "simplistic strategy". Such a strategy may imply that these managers find it difficult to alter their originally successful operational and administrative behavior in order to develop their firms. Such managers are "stuck" in a path dependency mindset, even though the growth of their firms requires that they adopt a more flexible management strategy.

Keywords Sweden, Manufacturing industries, Small firms, Managerial strategy, Business development, Observational studies, Growth, Simplistic strategy

Paper type Research paper

1. Introduction

For many years, researchers and other educators studying entrepreneurs and small firms, as well as politicians and practitioners, have been interested in why some small firms outperform others (see, for instance, Alpkan *et al.*, 2007). Numerous theories and practical tips for improving the performance and increasing the size of their firms have been offered to small firm managers. However, due to the heterogeneity of small firms and the context-dependent nature of their operations, it has proven difficult to find "a best practice" strategy that a small firm should follow in order to grow. Nevertheless, some fast-growing firms, often referred to as "gazelles" (Birch, 1979), perform better than others. According to the strategic management literature, such firms are successful in adopting management strategies that are suited to the environment in which they are applied (Parker *et al.*, 2010). So, even in these uncertain and complex environments, some small firm managers seem to make decisions that lead to firm growth. What do these successful managers in small, fast-growing firms do? Do they know something others can learn from, or is their success owing in large part to factors outside their control?

There are many factors that influence the performance of the small firm. Researchers point to laws and regulations (Henrekson, 2001), to external relations (Street and Cameron, 2007), to the size or age of the firm (Delmar *et al.*, 2003), or to the regional context such as location (Audretsch and Dohse, 2007). Yet another factor may be the

Journal of Management Development
Vol. 31 No. 7, 2012
pp. 700-710

0262-1711
DOI 10.1108/02621711211243890

small firm's proximity to large firms, which Lindholm-Dahlstrand (2007) identifies as important for the training and support of future entrepreneurs, especially those working with new technology.

In this study, I take a strategic choice perspective (Child, 1972) that acknowledges that the management of small firms actively interacts with the environment in order to improve organization performance. This theoretical perspective contrasts with natural selection theory (see, for instance, Hannan and Freeman, 1977) that claims that organization performance is largely dependent on environmental forces. My interest is the upper echelon of management (Hambrick and Mason, 1984) since I focus on the importance of top managers and their strategic decisions (behavior).

The origin of the research reported on in this paper was a pilot study conducted by a Master's degree student, at Halmstad University (see Glenberg, 2008). In the pilot study, we studied the five-year performance (2001-2006) of the 100 most rapidly growing Swedish small firms, identified in the year 2000 by *Dagens Industri* (the leading Swedish business newspaper). If the firms sustained their growth during the five-year period, a possible conclusion was that they were pursuing a planned strategy that led to improved performance. If there was little or no growth in the five-year period, the results suggested the lack of a long-term strategic plan for growth; earlier growth was likely explainable, to a large extent, by other factors. In the latter case, the strategic formation process was then probably more emergent (i.e. spontaneous) than management had planned (McCarthy, 2003).

In the pilot study, we learned the following about these 100 firms during the five-year period (2001-2006):

- 29 percent experienced positive growth;
- 19 percent experienced growth, but with one or several "dips" in numbers of employees;
- 24 percent experienced negative growth; and
- 28 percent were no longer in business.

Given these results, with 52 percent of the firms experiencing negative growth or no longer in business, one interpretation may be that small firm growth depends upon circumstances outside the control of the manager (this is the perspective of natural selection theory): firms that grow may just be lucky (see, e.g. Khandwalla, 1976/1977). Other empirical findings on small firm growth support this interpretation. For instance, Parker *et al.* (2010) find that the growth rate of gazelles is substantially lower in the five years after the first growth period, and even this growth pattern is non-linear rather than linear. Parker *et al.* (2010) claim these findings follow Gibrat's rule of proportionate growth: growth is not serially correlated, but randomly distributed. As a result, the typical gazelle growth pattern is a short spurt of growth followed by a return to the industry average growth rate (Acs and Mueller, 2008). In this interpretation, the main assumption of most of the strategic management literature is called into question: Does strategy really matter?

However, 48 percent of the firms in the pilot study experienced growth at some level. Included in this group were the firms (19 percent of the total) who had irregular employment levels (according to Birch, 1979, such employee variation is characteristic of the classic gazelle pattern). The success of these firms may suggest that growth is not completely outside management's control (this is the perspective of the strategic choice theory). The top managers in these firms appeared to use flexible strategic planning to meet both internal and external demands. This result is also supported by empirical findings by other researchers. For instance, based on empirical evidence, Parker *et al.* (2010) identify four functional strategies (HRM, innovation and technology, administration/governance, and marketing/sales) that explain firm performance. Metts (2007) also finds a relationship between strategic efforts and performance in his study of small manufacturing firms in the USA. In this interpretation, the conclusion is strategy matters.

Building on the pilot study, a colleague and I studied (observed) the top manager at six small, fast-growing firms. In our study, conducted in the years 2006/2007, our assumption was that because strategy matters, top managers at small, fast-growing firms can influence the strategic direction and thus the performance of their firms. Recognizing that our understanding of management's role in strategy making at such firms in high-growth periods is limited, in this paper. I attempt to increase our knowledge of management behaviors of top managers. By observing the behaviors of these six top managers some years after the initial rapid growth of their firms, it may be possible to learn if they use certain common management practices that explain their subsequent firm growth or lack of growth.

2. Theoretical framework

The objective of a strategic decision is to make the best use of available skills and resources in an organization in relation to external variables in order to achieve the best possible performance. There is, however, a debate in the literature on the importance of strategic decision making and planning in small firms.

There are many empirical studies in the strategic management literature that suggest a positive relationship exists between strategic planning and performance (see, e.g. Shrader *et al.*, 1989; Gibson and Cassar, 2005). The consensus of these studies is that strategic planning for the future is a vital activity for top management since such "planning can help a firm structure future expectations" (Gibson and Cassar, 2002, p. 171).

This side of the debate argues that strategic planning generally has a positive effect on firm performance (Orpen, 1985; Miller and Cardinal, 1994) and that managerial formalization will increase as small firms grow (Greiner, 1972; Mintzberg, 1983). In relation to this, Gibson and Cassar (2005, p. 219) conclude, based on their study of 2,900 firms in Australia, that "there may be greater credence to the claim that improved performance is the precursor to planning introduction, rather than the traditional view that planning activity leads to better performance." This finding implies that successful firms (such as gazelles) plan and work with management strategies to a greater extent than less successful firms. For example, Duchesneau and Gartner (1990) find a correlation between firm success and the time devoted to strategic planning in their study of firms in an emerging industry (the distribution of fruit juices).

Those on the other side of the debate argue that small firms without formal planning processes perform as well as their counterparts with such processes. For example, Robinson and Pearce (1983) reach this conclusion in their study of small banks. In more than 20 studies reviewed, Coad (2009) finds mixed results on the connection between firm success and strategic planning. While strategic planning is often defined as the existence of planning documents (Gibson and Cassar, 2005), some studies find that many small firms lack such documents (see, for instance Lumpkin and Dess, 1995). In addition, some studies of strategy in small firms, which question the rationality of strategy making, instead examine strategy-making processes other than the rational processes that are often suggested in the literature and are used by large firms (Verreynne and Meyer, 2010).

2.1 Strategies used by top managers in small firms

In this study, I use the typology of four strategy-making processes developed by Lumpkin and Dess (1995) and used by, for example, Verreynne (2006) and Verreynne and Meyer (2010). Verreynne (2006, p. 210) defines typology as the "set of approaches to the strategy-making process that are presented as complementary to each other." These four strategy-making processes can be treated as distinct strategy-making processes appropriate for the purpose and methodology (observational studies) of this study. The four strategies are: simplistic, participative, adaptive (reactive), and innovative/intrapreneurial. For the fourth strategy, Verreynne (2006) discusses the intrapreneurial aspect and Lumpkin and Dess (1995) discuss the innovative aspect. These four strategies are explained next.

The simplistic strategy. The simplistic strategy-making process, which Verreynne (2006) says is the most commonly used strategy in small firms, is defined by Lumpkin and Dess (1995, p. 1386) "an overemphasis on the very things that made them successful in the first place." A simplistic strategy-making process is characterized by a lack of variety in the behavior of the manager (low variance in behavior). In operations, this means the manager takes a specialist or substitute role (working mainly with a few issues such as the firm's competitive advantage). As the dominant leader, even though he/she completes many tasks during the workday, the manager has a narrow focus of attention, often on a single goal or strategy (low differentiation in the manager's attention). Dess *et al.* (1997, p. 686) make this point when they write that a manager in their study has "a blueprint set some time ago that has changed very little." In adopting the simplistic strategy, managers often neglect other important factors because of this single focus goal.

The participative strategy. The participative strategy-making process is characterized by variables that reveal a participatory or collaborative management style. It is not a dominant leader strategy since the managers who adopt this strategy have an internal focus that reflects their close relationship with employees (low managerial dominance) in their strategy-making processes and in their decision making. This strategy may benefit the organization by introducing more/new ideas and allowing more critical discussion of decisions. Such openness enhances the organization's ability to react to changes in its environment. Dess *et al.* (1997, p. 684) write that this strategy positively correlates with the idea, for instance, that "business planning involves everyone in the organization" and negatively with the idea that "the CEO insists on putting the mark on everything."

The adaptive strategy. The adaptive (reactive) strategy-making process is characterized by an external orientation toward adapting to customer needs and responding to supplier feedback. For example, managers adopting this strategy spend much of their time talking and listening to people outside their firms and focussing on activities related to these outside contacts. Dess *et al.* (1997, p. 684) describe this strategy as "business and product planning [that] involves customers and suppliers" and continual company adaptation "by making appropriate changes based upon feedback."

The innovative/intrapreneurial strategy. The innovative/intrapreneurial strategy-making process is characterized by a focus on innovation and entrepreneurial activities within the firm (hence the coinage of the word "intrapreneurial" derived from "intrapreneurship"). Managers adopting this strategy focus on strategic development work and product development. However, they also have an external orientation that is characteristic of the dominant leader who is engaged in many activities during the workday. In comparing small firms to large firms, Verreynne (2006) suggests that small firms are more dependent on internal and external stakeholders and less on owner-managers for new ideas and development strategies. Dess *et al.* (1997, p. 684) writes of an organization using this strategy: "People in this organization are very dynamic and entrepreneurial" and "Most people in this organization are willing to take risks."

The main differences among these four strategy-making processes result from the following: the manager's behavioral variances/differentiation, external/internal orientation, and leadership dominance. The four strategies are contingent, that is, their effectiveness depends on both internal and external circumstances.

3. Method

The other half of this study uses the method of structured observation designed by Henry Mintzberg (1973)[1]. We, a colleague and I, collected data from six firms during the winter of 2006/2007. Each of the six managers in the study manages a Swedish manufacturing company. In order to reduce the number of variables, we selected six manufacturing firms of rather similar size (see Table I for key characteristics of the managers and their firms).

During the six weeks of observation at the six firms we took notes on all the managers' activities contemporaneously, minute by minute, using Mintzberg's (1973) design for chronology, contacts, and mail records. In total, we observed approximately 125 hours of work and 855 individual activities. Both of us were present at all observations and we both took extensive field notes to support our subsequent recapitulation of "stories" and "events."

We then analyzed the strategic behavior of the managers in two steps. First, after three rounds of classifications of the 855 activities, we decided on a final classification of three main activities – strategic, administrative, and operational activities. Within these main activities we identified 13 sub-activities (see Figure 1). Strategic activities

Growth	Number of employees and industry	Sex/age	Time as manager	Empirical data
+241 percent average increase in turnover during the six-year period prior to observations	10-38 employees in manufacturing industry	Six top managers all male/ between 35 and 65 years	Six top managers with managerial experience between three and 20 years	Approximately 125 hours of observation – three-days' observation of each firm (18 days). A two-day control study conducted by Master's students with four managers (approximately 67 hours). In summary: observations – 855 activities/18 days; control study – 418 activities/eight days
Range: +93 to +406 percent	Average 24 employees	Average 49.3 years	Average 12 years	

Table I.
Key characteristics of the managers and their firms

are activities in which the managers work with important, long-term decisions related to the company's future. Administrative activities relate to support areas such as finance, administration, and personnel. Operational activities relate to the daily work of production, including purchasing, manufacturing, marketing/sales, and delivery.

In the second step of our analysis I examined the variety (i.e. the variance and differentiation) of the 13 sub-activities at the individual and the group levels, the managers' external and internal orientation, and the manager's leadership dominance. The purpose was to determine the percentage of time the managers spent on each sub-activity in order to identify their main strategy according to the typology developed by (Lumpkin and Dess, 1995).

Since the qualitative aspect of the study is based on only six observational studies, I offer no statistical explanation for the results. Nevertheless, owing to the large number of direct observations of the managers (855 individual activities in total), I argue for the reliability of the results. A further argument in support of the reliability of the results is the fact that all six firms show almost the same performance distribution as the firms in the larger survey sample that preceded this study (see Glenberg, 2008). Finally, in order to validate that the data reflected an ordinary workday and were not biased by our presence (the so called researcher effect), we supervised a two-day control study of four managers in our study. The Master's students who conducted the control study followed our research methodology (as developed by Mintzberg, 1973); their observations were similar to ours (for a report on this study, see Anderbjuv *et al.*, 2006). Thus, I conclude that the observations were both valid and reliable in that they actually reflect an ordinary workday for a top manager in a small, fast-growing manufacturing firm.

4. Analysis of empirical data

One conclusion is that the managers' activities on an aggregate level (strategic, administrative, and operational) are more similar than they are at the sub-activity level where there is a greater variance among the managers. The managers (medium value) divide their time between a focus on strategic issues (13 percent), administrative issues (33 percent), and operational issues (54 percent) as presented in Figure 1. It appears the role expectations of a small firm manager are generic – that is, there is little room for individual differentiation at the aggregate level. In the daily work, however, the individual activities/behaviors of the managers are very different.

The variance/differentiation in behavior among the managers: the variance in behavior is calculated as follows. Based on the 13 sub-activities in Figure 1, the percentages for the three activities that take most of the managers' time are totaled,

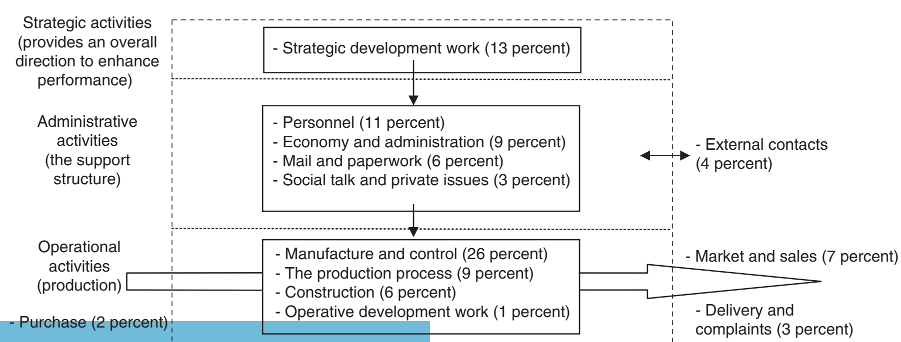

Figure 1. The three main activities and the 13 sub-activities of managerial work

and then the percentages for the five activities that take most of the managers' time are totaled. These results are compared to the five activities that take the least of the managers' time. The three activities that take most of the managers' time (different activities for each manager) are between 50 and 77 percent (a medium of 67 percent). The five activities that take most of the managers' time (different activities for each manager) are between 68 and 92 percent (a medium of 83 percent). The five activities that take the least of the managers' time are between 3 and 8 percent (with a medium of 5 percent). The conclusion is that while managers perform many activities during the workday, they narrowly focus on a few activities. This suggests that there is a low variance/differentiation in behavior as the managers prioritize some activities over others.

The dominance of the managers and their external/internal orientation: the managers spend much of their time in their offices. About half their time is devoted to working at their desks on strategic, administrative, and operational activities. The other half of their time is spent in verbal contact with others, mainly in telephone conversations or in formal and informal meetings. The breakdown of their verbal contacts is as follows: 50 percent with subordinates, 10 percent with clients, 20 percent with suppliers and associates, and 20 percent with others (e.g. lawyers, outsider finance people, various inspectors, and new hire interviewees).

The majority of both their scheduled and unscheduled meetings are for discussions related to operations or administration. They have very few conversations or meetings with subordinates on strategic issues. The subordinates do not seem to be involved in the decision-making processes of the firms. Furthermore, the managers' verbal contacts show that they are more internally oriented since are not much involved with customer requirements or with responses to suppliers.

4.1 Results from the analysis

The results of the analysis reveal both similarities and dissimilarities among the six managers of the study. Although there are general similarities among the firms they manage (all are small, fast-growing manufacturers in Sweden), the managers make up a very heterogeneous group as far as behavior characteristics. Individually (i.e. at the level of the 13 sub-activities), each manager performs a particular set of activities. However, in the aggregate (i.e. at the strategic, administrative, and operational) levels, there is greater homogeneity in the group. As managers of such firms, all perform certain common activities (largely related to external demands), regardless of firm performance. It should be noted that one commonality among the managers is that they spend little time on strategic work.

Although the managers engage in numerous activities in the workday, a few activities take most of their time. Most of their effort is spent on operational and administrative work. The managers also seem to be more reactive than adaptive as they deal with the various problems and issues that arise during the workday.

In short, the results of the study show that the managers of these small, fast-growing firms use a simplistic managerial strategy. They spent little time on long-term planning; they do not involve their subordinates in the internal strategy/decision-making processes, and they show minimal external orientation that requires adapting to customer needs and responding to supplier feedback.

5. Conclusions

The main conclusion of this study is that due to the generic features of managerial work, managers in small, fast-growing manufacturing companies engage in similar activities that take almost 90 percent (33 percent administrative, 55 percent operational) of their time. Only 13 percent of their time is spent on strategic activities. This conclusion is consistent with findings from another study of small firms where observational data from growing and non-growing firms showed that there were more similarities than differences between such firms (Andersson and Tell, 2009). This finding also supports the results of Coad's (2009) study where he finds that in 12 reviewed studies, eight report R^2 values of below 10 percent and six report R^2 values of 5 percent or less in explaining the relationship between the growth of the firm and strategic work by top management in small firms[2].

A second conclusion of this study is that the focus of the manager on the very things (e.g. operational issues such as production processes) that caused the firm to grow initially (a simplistic strategy) is hard to let go of. There may be a strong tendency toward path dependent behavior by managers. Parker *et al.* (2010, p. 223) state that "firms are unlikely to be successful if they attempt to draw lessons from observing growth in one period and applying these lessons routinely at a different point in time." Imitating past managerial policy may result in future inflexibility with little innovation. As Leitner and Güldenberg (2010) claim, a small firm requires a combined strategy of innovativeness and effectiveness. However, under the constraint of scarce resources typical of small firms, it is difficult for the top managers to change their behavior in order to find time to focus on strategic issues. The small firm that was once fast growing may be stuck in the paradox of its own success. Such success, as Elsass (1993, p. 84) writes, makes "organizations lose the ability to recognize and respond to environmental demands."

Nevertheless, following the path of the simplistic strategy is not always a bad choice for a small firm. There is empirical research that shows use of this strategy can be effective in the early stages of the development of the firm (Miller, 1993). After this initial phase of growth, however, it may be important to take a more dynamic/flexible strategy (Alpkan *et al.*, 2007; Parker *et al.*, 2010). Managers may have to change the strategy between, for instance, a focus on the distinctive competitive advantage and the ability to recognize and respond to environmental demands (Metts, 2007). In the empirical data of this study (both the survey study and the observational study), 50 percent of the companies had negative growth and 50 percent had positive growth. One of the explanations for this, could be that the former group may not have adapted its strategy to the demands of the subsequent growth cycle. The latter group may still be in the early growth phase, or may have applied the dynamic strategy necessary for its continued success.

5.1 Practical implications and suggestions for future research

This study may help managers of small firms, as well others, to better understand the challenges in managing a small, fast-growing firm. The study warns practitioners of the dangers of becoming stuck in a simplistic strategy-making process. When the empirical observations of the study were presented to the six managers, they were unaware of their, tendency to focus narrowly on operational and administrative issues. They were astonished to learn how they spent their workdays. Their general response to our findings (that they focussed on only a few activities) was that they might wish to broaden their focus, particularly with regard to strategic activities.

Future research might observe the managerial behavior of small, fast-growing firms and then form focus groups to discuss the findings. The experience with this approach is very positive. We (my colleague and I) provided the managers with the "hard facts" of their time distribution that they found informative. We also gave them new ideas on how to develop their managerial behavior in the dialogues with other managers and the researchers. We believe the approach could be developed in other settings (more firms in the sample and/or non-manufacturing firms).

There is empirical evidence that shows that the failure rate of small business during the first six years is as high as 60 percent (Small Business Administration (SBA), 2005). One of the main reasons for this is the lack of management skills and an inability to manage growth (Beaver, 2007). While my study did not investigate the management training and education of the managers, I believe this explanation of small business failure poses some interesting future research questions. Have managers who engage in successful strategic actions been educated or trained in management skills and can they therefore better apply a more dynamic/flexible strategy, as suggested by for instance Alpkan *et al.* (2007) and Parker *et al.* (2010)? If so, what kinds of management skills are needed in order to manage a growing firm and how can this knowledge be used in order to organize educations for managers in fast-growing firms?

Notes

1. For a description of the use of this methodology, see Mintzberg (1973, appendix C).
2. One way of explaining why so many small firm managers do not work with the strategy process is done by Beaver (2007, p. 12), who suggests four reasons, that is: not enough time, unfamiliarity with strategic management techniques and processes, lack of skills, and lack of trust and openness.

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