Managing for growth: decision making, planning, and making changes

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Abstract

The competencies that need to be developed and deployed in coping with accelerating changes in the business environment have been the subject of much work dating back at least to the 1960s. Two broad themes are discernible in this work. On the one hand there are those who argue that the speed of change is so fast that organisations and managers who can respond almost instinctively and improvise responses quickly will do well. On the other, there are those who argue that more formalised systems of strategic development and control are needed to give organisations a competitive advantage. The results from an empirical study of some 267 organisations are used to shed some light on this debate. The evidence supports the idea that a growing organisation is associated with the existence of internal strategic systems that support the firm's growth ambitions, allowing it to make not only "good" business decisions and to monitor how well the organisations is doing against its strategy, but to do so speedily.

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Introduction

This paper describes one of a series of studies exploring the role of planning in the success of small businesses (Joyce *et al.*, 1996; Georgellis *et al.*, 2000). In the two previous studies we explored the role of planning and entrepreneurial management in small businesses that were growing. The starting point for this study was interest in the organisational adaptation issues posed by dynamic and complex environments. Harvey (1989) and Lash and Urry (1994), among many others, have suggested that the pace of economic life is quickening. At about the same time, Ansoff and McDonnell (1990) were not only arguing that environmental changes were accelerating and becoming more complex and novel, they also argued that older, reactive responses to environmental change were increasingly inadequate. In the face of the quickening pace of change businesses needed to move to strategic planning, and when even this was not enough, they needed to move to strategic management, including real-time issue management. More recently Eisenhardt and Sull (2001) have been speculating on the type of strategy that works best in rapidly changing, ambiguous markets and suggest the need for key strategic processes and simple rules. They represent their ideas as different to earlier approaches to strategy that were suited to slow changing and well-structured markets.

The ability of businesses to deal with rapidly changing environments has long been explored in the management literature (Burns and Stalker, 1961). The analysis of the characteristics of more successful organisations in complex and dynamic environments may highlight methods of decision making and the speed of decision making. This has been taken up in studies making cross-societal comparisons. For example, Groenewegen (1997) has suggested that the social market system of continental Europe suffers from rigidities and time consuming decision-making similar to that found in Japan. This is contrasted with the Anglo-American situation that is described as thriving on flexibility with quick, decisive decision making. A further factor, prompted by research carried out by Miles and Snow (1978), is that organisations vary in their capabilities or competences and they may exhibit these in how they deal with environmental developments. In particular, some organisations that have capabilities in environmental surveillance and planning may handle changes in the environment by predicting and adjusting to them. Other organisations may be good at improvising responses when taken by surprise. Consequently, it is possible that planning or improvisation may be used to deal with accelerating change. There is, of course, a debate on the benefits of engaging in strategic planning, especially in smaller organisations (Richardson, 1995). Within this debate, Mintzberg (1979) is one of the leading members in the "anti-planners" camp. In this line of argument it is the very fact that the world has become so "messy" and speeded up that explains why time spent on formulating plans is wasted. Strategic planning is bureaucratic when what is needed is fast, flexible and incisive action. Countering this is a wide range of literature pointing to the benefits of strategic planning in businesses, including smaller ones. For example, Schwenk and Shrader (1993) carried out a meta analysis of existing studies that found, on balance, strategic planning was positively linked to growth.

Some writers on strategy have attempted to characterise different paradigms of strategic management that in part reflect these changes. For instance Joyce and Woods (1996) argued that the old modernist paradigm of strategic management dominated strategic thought in the 1960s and 1970s. This paradigm had at its centre a belief that the future was in some sense knowable and the business could be programmed to achieve success within this known future. This paradigm became increasingly unconvincing as the business world suffered from not only "unpredictable" futures, but also from acceleration in the speed of change to such an extent as to invalidate attempts to plan centrally and comprehensively. Peters and Waterman (1982) were influential in arguing for a shift in thinking to cope with dynamic and messy environments. In the 1990s it became fashionable again to argue that we needed a new strategic paradigm where planning is still desirable as it confers benefits on the business but needs to be tempered by being more inclusive as well as more open and flexible than the old 1960s models (Joyce and Woods, 1996). Businesses cannot just want to be innovative and entrepreneurial. Senior managers have to put in place structures that allow this to happen.

These general considerations are the context for an empirical study of a sample of business growth among small and medium sized enterprises (SMEs). This study is designed as an investigation of the role of planning, changes in decision-making speed, and change management. It reports the results of an analysis of survey data collected from 267 SMEs in London. While not every SME aspires to grow, we will show that the use of planning to bring about change and innovation is correlated with business growth and that speedier decision making and capabilities in making changes are also important. Furthermore, we will be outlining the role of strategic management processes in supporting management capabilities.

Conceptual framework

In the face of accelerating environmental change and complexity it is possible that the management of change and innovation becomes an increasingly important and critical management capability. Analytically speaking, the process of managing change and innovation can be assumed to involve at least three phases:

(1) the decision-making phase;
(2) the planning phase; and
(3) the implementation phase.

In practice, discrete steps may not be easy to discern and they may co-exist (Pettigrew and Whipp, 1991). If successful, it can be assumed that the organisation adapts to the changes in the environment and is rewarded by consequential growth in terms of sales, profits and, possibly, employment. This conceptual framework is shown in the diagram in Figure 1.

Each of the phenomena identified in the conceptual framework may be thought to have dimensions. For example, decision-making could be getting faster or slower over time. Some organisations might make extensive use of planning to bring about change and innovation; others might only make moderate use or might not use it at all. In terms of making changes, some organisations might be good at it and others might not be good at it. Some prior

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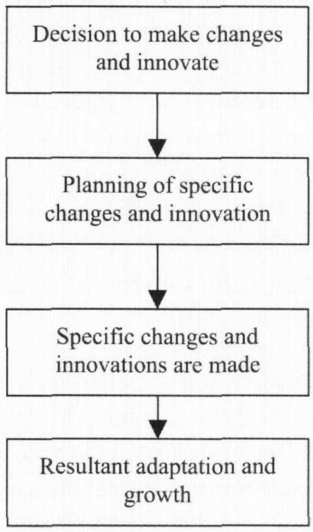
Figure 1 Conceptual framework



expectations about the importance and significance of these dimensions can be linked to published theories and research. For example, we can use Ansoff and McDonnell's (1990) judgement that strategic management had to evolve from strategic planning to strategic management, including real-time issue management, in the face of environmental change, to hypothesise that organisations reporting speedier decision-making over a period of time would be more successful than others. Based on Miles and Snow's (1978) study, it is possible to hypothesise that the use of planning to bring about change and innovation would be a feature of more successful businesses. But their study of how crises are handled also provides some basis for the argument that less use of planning in favour of improvisation might be better for some organisations. Pettigrew and Whipp's (1993) study of strategic change also suggests that planning of change is important. They showed that part of the pattern of successful strategic change was the ability to take abstract strategic ideas and plan for the implementation of these ideas methodically. This entailed breaking down strategic intentions into actionable components and allocating responsibility for each of these. Finally, organisations that are good at making changes might be more successful than those that are not good at making changes. While much published research tends to reflect the experiences of large-scale businesses, it is at least possible that the same conclusions may be warranted for SMEs.

Methodology

The study was designed as a survey of a representative sample of London businesses. The research sample was drawn from independent businesses within the M25 (a circular motorway around London) area. We purchased from *Electronic Yellow Pages* a random sample of 2,500 organisations' names and addresses and aimed to carry out telephone interviews with 500 randomly selected firms. Every fifth organisation on the list was approached. If a firm refused to participate the next firm on the list was contacted next. Interviews were begun once the willingness and appropriateness of the respondent had been established. Many of these organisations, although willing to take part in the survey, were not able to supply a respondent who was able to answer with sufficient knowledge questions relating to their organisation's strategy. In these cases the next organisation on the list was contacted. Access and confidentiality issues within the telephone interview itself were anticipated. Previous telephone surveys had revealed difficulties in obtaining financial data and, accordingly, use was made of simple performance measures. The quantitative analysis has been carried out on a sub-sample consisting of all establishments that employed between two and 250 employees. Businesses that had been formed less than ten years ago were also excluded because one of the survey questions asked them to evaluate whether decision-making had been getting faster or slower, compared to ten years ago. The final size of the sub-sample added up to 267 SMEs. The SMEs in the research sample were drawn from a range of sectors (Table I) and employment sizes (Table II).

Business performance

Respondents were asked to evaluate their business's current performance as growing, stable or declining. The judgement of current performance was highly correlated with the judgement of performance over the preceding three years. Businesses that were reported to have been growing over the preceding three years were invariably described as currently growing. Those that had been stable or were declining over the preceding three years were still stable or declining. This suggests that the

Table I Sectoral spread of research sample

Sector	Frequency	%
Manufacturing	16	6.0
Construction	8	3.0
Retail and wholesale	61	22.8
Transport and distribution	15	5.6
Specialist finance	5	1.9
Professional and telecom services	29	10.9
Support services	29	10.9
Consumer services	33	12.4
Hospitality	8	3.0
Entertainment	4	1.5
Creative	17	6.4
Traditional public sector function	19	7.1
Voluntary	6	2.2
Other	17	6.4
Total	267	100.0

Note: ($n = 267$)

Table II Employment size

Establishment size	Frequency	%
1-4	79	29.6
5-9	83	31.1
10-19	48	18.0
20-250 employees	52	19.5
Total	262	98.1
Could not say exactly	5	1.9
Total	267	100.0

Note: ($n = 267$)

judgements of current performance were not picking up a temporary state of affairs. This may seem a very soft measure of performance but there is evidence to suggest that the judgements expressed had an objective basis. Over four-fifths of the businesses that reported the number of permanent staff had risen also described the current performance of the organisation as growing. This may be contrasted with the four-fifths of those saying the number of permanent staff had fallen also stating that their business was stable or even declining. The results that emerged from the bivariate analysis were plausible. The businesses that were growing were more likely than the rest to have reported a trend to speedier decision-making, the use of planning to bring about change and innovation, and a self-rating that they were good at making changes (see Tables III-V).

As a check on the finding that emerged from the bivariate analysis, a hierarchical loglinear analysis was carried out on 224 cases (43 cases were rejected because of missing data). This analysis was consistent with an interpretation that all three factors were separately related to the current performance of the business (Figure 2). This also indicated a strong interaction between a trend to speedier decision-making and a self-rating of being good at making changes.

Strategic management as a support mechanism

The final section of this paper is an exploration of the significance of strategic management systems. In essence, we are arguing that strategic management systems do seem to be correlated with the factors that determine the current state of business performance (growth, stability, or decline). However, the strategic management systems seem to be mainly fostering what we suspect are intervening variables in creating business growth. Relatively few of the businesses had strategic management systems. Those that did mainly had what we label strategic performance management systems. This means that they had strategic plans or strategic documents containing strategic goals that were quantified or measurable, annual performance targets derived from the strategic goals, a system for collecting and reporting performance data, and a system or process for planning performance improvements.

A minority of these cases also had a strategic issue management system, which meant that they had arrangements for identifying strategic issues and setting an issue agenda, had addressed strategic issues through projects, and had a specific budget for addressing strategic issues. A relatively small proportion of the businesses reported using a strategic planning system to identify innovations in products, services, processes, activities, etc. The remainder might have some elements of strategic management systems but did not have all the relevant elements and we have labelled them as having no strategic management system. Speedier decision-making was most prevalent among businesses that had strategic management systems (Table VI). In fact, further analysis showed those establishments that had arrangements for identifying strategic issues and setting an issue agenda were notable for

Journal of Small Business and Enterprise Development
Volume 10 · Number 2 · 2003 · 144-151

Table III Current performance according to speed of decision making compared to ten years ago

Organisation's current performance	Speed of decision making compared to ten years ago? More than 20 per cent faster (%)	From only 20 per cent faster through to slower (%)	Cannot tell (%)
Growing	60.8	45.5	75.9
Stable/declining	39.2	54.5	24.1
Total	100.0	100.0	100.0
$n = 253$	125	99	29

Note: Pearson chi-square = 10.279; 2 df; asymp. sig. (2-sided) = 0.006

Table IV Current performance according to use of planning to bring about change and innovation

Organisation's current performance	Is planning used to bring about change and innovation? Great extent (%)	Moderately (%)	Not at all (%)
Growing	76.9	62.9	31.9
Stable/declining	23.1	37.1	68.1
Total	100.0	100.0	100.0
$n = 252$	78	105	69

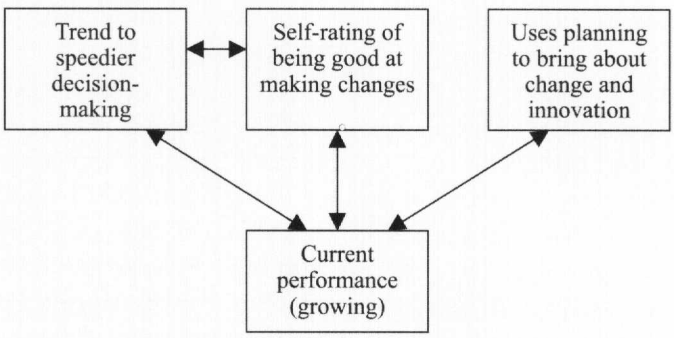
Note: Pearson chi-square = 31.906; 2 df; ssymp. sig. (2-sided) = 0.000

Table V Current performance according to how good the company is at making changes

Organisation's current performance	How good is the company at making changes? Very good (%)	Quite good (%)	Not good (%)
Growing	76.5	51.1	48.3
Stable/declining	23.5	48.9	51.7
Total	100.0	100.0	100.0
$n = 252$	68	139	29

Note: Pearson chi-square = 13.386; 2 df; asymp. sig. (2-sided) = 0.001

Figure 2 A hierarchical loglinear analysis



Notes: Likelihood ratio chi square = 48.11236
DF (unadjusted) = 50 p = 0.0549
DF (adjusted) = 32 p = 0.034
224 cases (43 case rejected because of missing data)

their propensity to report speedier decision making over the period.

Table VII shows that businesses that reported using planning to bring about change and innovation were more prone to have strategic management systems. It also shows that businesses that did not use planning to bring about change and innovation only exceptionally had a strategic management system. The correlation is clear, but why does it exist? It may be that strategic management systems create a favourable context for all kinds of planning to take root. Perhaps strategic management systems create positive attitudes, beliefs, and habits that support the practice of planning changes and innovation.

Journal of Small Business and Enterprise Development
Volume 10 · Number 2 · 2003 · 144-151

Table VI Speed of decision-making compared to ten years ago according to strategic management situation

Speed of decision making compared to ten years ago?	Organisation's strategic management situation: No system (%)	Strategic innovation planning (%)	Strategic performance management system or strategic performance and issue management system (%)
More than 20 per cent faster	43.3	62.5	66.7
From only 20 per cent faster through to slower	42.2	33.3	26.9
Cannot tell	14.4	4.2	3.7
Total	100.0	100.0	100.0
$n = 258$	180	24	54

Note: Pearson chi-square = 12.692; 4 df; asymp. sig. (2-sided) = 0.013

Table VII Strategic management situation according to use of planning to bring about change and innovation

Organisation's strategic management situation	Is planning used to bring about change and innovation? Great extent (%)	Moderately (%)	Not at all (%)
No system	48.8	69.2	95.8
Strategic innovation planning	8.8	12.1	4.2
Strategic performance management system or strategic performance and issue management system	42.5	18.2	0.0
Total	100.0	100.0	100.0
$n = 258$	80	107	71

Note: Pearson chi-square = 47.792; 4 df; asymp. sig. (2-sided) = 0.000

The rating of the businesses' competence in making changes tended to be better for the businesses that had strategic performance management systems or strategic performance and issue management systems.

Discussion

As shown in Figure 2, growing organisations are making speedier decisions, use planning to bring about change and innovation, and are good at making changes. Also the results of our analysis have shown that speedier decision-making, planning to bring about change and innovation, and being good at making changes are all associated with having strategic management systems. Lastly, planning to bring about change and innovation, which was relatively strongly linked to those establishments that had strategic management systems, was perhaps the most important of the three correlates of growth that we investigated.

These findings are consistent with more than one possible interpretation. Strategic management systems might, for example, be a management infrastructure deliberately created by an organisation to help it generate, steer and manage change and innovation. Because of this infrastructure the organisation may be able to make decisions quickly, plan change and make change happen and thereby produce the growth of the business. It might be argued, however, that growing businesses are under pressure to make decisions more quickly because they are growing, that the growth entails changes that have to be planned, and that a recent history of growth has taught the organisation lessons about making changes. Conversely, for example, if a business is not growing and its pattern of activity continues with little change, then the momentum of decision making probably is not changing, perhaps planning is just not needed, and perhaps there is little experience of making changes. If growth has brought speedier decisions, planning of change and innovation, and better skills in making changes, perhaps the managers can see more benefit in developing strategic management systems that might enable these activities to be institutionalised? Thus, in this alternative explanation, it is the growth that has caused the strategic management system (or systems) not the strategic management system that has caused the growth.

Journal of Small Business and Enterprise Development
Volume 10 · Number 2 · 2003 · 144-151

A third possible interpretation is that a growing firm has already achieved speedier decisions, already plans change and innovation, and is already quite competent in managing changes but sees a strategic management system as beneficial. In other words the competitive advantages of having strategic management systems are more apparent to growing businesses. If the strategic management system does help to make decisions even speedier, does help to improve the planning of change, and does help to make the management of change more effective, such experiences could be significant in fostering further developments in strategic management. The positive experiences of strategic management might encourage an organisation to review and revise its strategic management system to increase its benefits. At each stage in its growth, the firm experiments and modifies its systems in the light of its experiences with a view to gaining even more competitive advantage. In effect, strategic management develops as a kind of feedback loop.

Based on these three interpretations it may be argued that either there are competitive benefits in having strategic management systems in a growing business or strategic management helps to institutionalise the management capabilities needed for growth. It is apparent that, either way, this study suggests that there are some grounds for doubting those who argue for intuitive and spontaneous approaches to growing a business. Whatever the underlying causal pattern behind these findings, there is some reassurance for the view that planning to bring about change and innovation is important and that making decisions more swiftly and managing change well confers a significant competitive advantage.

Conclusions

The results presented here have suggested that organisations that used systems of strategic management were more likely to report decision making that had speeded up, the use of planning to bring about change and innovation, and being good at managing change. Arguably, this pattern is functional in today's business world, as demonstrated by the growth reported by such organisations. (We leave aside the argument that some businesses have not grown because they did not intend to grow.) Paradoxically it is sometimes argued that current business circumstances militate against formal systems of strategic management. According to this line of argument, time spent on formal planning and monitoring systems is wasted, as by the time the findings have been decided upon and implemented the external environment has changed. Further formalising the strategic process leads to rigidity and inflexibility when what is required is the opposite.

Instead of trying to resolve the debate between planning and non-planning theoretically, we believe that managers are more convinced by seeing things that work for them in practice. Essentially, they are practice based not theory oriented. Managers tend to experiment with various internal strategic management systems and choose those that work for them. As a firm grows, the lack of a strategy building and monitoring process may become restrictive. A chosen strategic management system might become suitable and, thus, acceptable to managers. The growth of the organisation causes the change towards strategic management processes. Managers then look to acquire appropriate strategic skills and, through trial and error, build up a portfolio of such skills in order to support the organisation's growth ambitions.

From a policy perspective, urging managers to put into place strategic management systems prior to some growth taking place may not be as successful as waiting until there is evidence of growth occurring. Only then may the managers be receptive to the belief that strategic management systems can reinforce success. Thus, growth provides the right conditions for the introduction of strategic management systems. Once these systems are in place, planning and management of change can be enhanced and decision-making can speed up.

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