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Strategic planning in growth oriented small firms

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Abstract

Purpose – The paper aims to examine the management practices of owner-managers of small businesses seeking to grow their firms. It seeks to better understand their strategic thinking in relation to internal and external environmental issues.

Design/methodology/approach – A sample of 204 owner-managers who had indicated their desire for growth was surveyed using a questionnaire developed from earlier research that examined their strategic and operational behaviour. Follow-up discussions over their results were conducted face-to-face. Data were analysed using confirmatory factor analysis and discriminant analysis.

Findings – Firms that possessed formal written business plans were found to be 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 annual sales turnover and the personal vision of the owner-managers.

Research limitations/implications – Although the sample was atypical, in that it was comprised of owner-managers who had a growth orientation, 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.

Practical implications – The findings in this paper 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.

Originality/value – The literature relating to strategic thinking and behaviour within small firms remains underdeveloped, and this paper provides valuable insights into this area.

Keywords Owner-managers, Management strategy, Business planning, Small enterprises

Paper type Research paper

Introduction

This paper examines the management practices of small firm owner-managers with a specific focus on the relationship between stated planning behaviour and the possession of a formal written business plan on the one hand and stated planning behaviour and performance, as measured by growth in sales, on the other. For the

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purposes of this study the term "small" refers to a business that has less than 250 employees, which includes micro-enterprises, small businesses, and medium enterprises (OECD, 2004). A distinction is also drawn between "owner-managers" and "entrepreneurs", recognising an owner-manager as someone who founds or acquires a small firm for personal goals and for whom the firm is typically their primary source of income. In most cases the firm is inseparable from the owner-manager. By contrast, an entrepreneur focuses on profit and growth, and uses innovation and strategic management to achieve growth through differentiation (Carland *et al.*, 1984). The study addresses three key research questions:

(1) What are the key managerial factors associated with growth oriented small firms?

(2) Is there a difference between the managerial behaviour of small firm owners who adopt formal business planning and those who do not?

(3) What factors are associated with small firms that grow faster than others?

In the remainder of the paper, we examine prior research relating to these three questions and outline our methodology, sampling, findings, discussion and conclusions. The first research question deals with the small business owner-manager's role as the principal actor in the decision to grow and, therefore, their entrepreneurial orientation. Also relevant to this are the various theories of firm growth within small firms. The second research question focuses on the strategic planning process in small firms and, in particular, on the benefits obtained from such planning and whether or not such planning is formal or informal in nature. The third research question deals with the issue of how small firms achieve growth, with attention given to the relevance of such strategic management theories as the resource based view of the firm and the nexus between entrepreneurial strategy, which is largely emergent in nature, and the need for formal long range goal setting.

Key factors associated with small firm growth

Owner-managers' characteristics need to be understood when considering small firm growth but firms' characteristics and the nature of their strategic planning and management processes are also important (Storey, 1994). Researchers examining small firm growth have adopted several theories or models with differing points of focus. These include the life-cycle or life-stage model of the business, which suggests a firm moves through various stages, such as its transition from start up to maturity, the resource-based theory of the firm and the entrepreneurial orientation of the owner-manager model that looks most closely at their strategic competencies (Kemp and Verhoeven, 2002).

Lifecycle or stage model theories have been the subject of considerable research since the 1960s (e.g. Steinmetz, 1969; Lippit and Schmidt, 1967, 1968; Greiner, 1972; Cooper, 1981; Churchill and Lewis, 1983; Scott and Bruce, 1987). Such life-stage theories of growth appear to parallel Rostow's (1960) economic growth theories from this period. A key contribution from life-cycle theories is a recognition that the managerial challenges facing the owner-manager vary from life stage to life stage, with ever-increasing levels of complexity as an organisation grows. As the firm grows, owner-managers or entrepreneurs need to adjust their managerial behaviour, becoming more formal in terms of operational and strategic planning, eventually developing a middle level management team and a board of management (Hofer and Charan, 1984). The research suggests that, while there is some support for the behaviour of firms at different stages of the lifecycle, there is less support for its sequential nature (Miller and Friesen, 1984).

It has also been recognized that small firms might not seek to grow but may contain or "cap" their growth, with such decisions likely to take place in the very early stages of the firm's life before it moves from small to medium size (Hanks *et al.*, 1993). This capped-growth is usually a conscious decision by the owner-manager to restrict expansion out of a desire to avoid risk, uncertainty and the problems associated with hiring more employees, winning new markets, developing new products or securing new capital investment (McMahon, 1998). It is worth acknowledging that while most small firms grow strongly after start up only a minority experience sustained growth through the full lifecycle and become large organisations.

The factors that determine the capacity of a small firm to grow are their owner-manager's competence, entrepreneurial orientation and strategic planning skills and how well they manage the resources available to their businesses. One of the first researchers to note the importance of owner-manager's entrepreneurial orientation was Penrose (1959), who drew a distinction between "managerial competence" and "entrepreneurial competence", with the former focused on efficiency and the maintenance of the *status quo* and the latter focused on risk taking and the maximisation of profits through the pursuit of opportunities. Penrose (1959) noted firms, regardless of size, could have either of these orientations, and that many smaller, often family owned, firms were likely to be managerially oriented, rather than entrepreneurially oriented.

The entrepreneurial orientation of the owner-manager works in conjunction with the firm's overall structure, including the orientations of other senior managers and external environmental influences, to determine growth (Lumpkin and Dess, 1996). The role of the firm's management is important and a distinction emerged between the small business venture and an owner-manager, who is satisfied with the status quo and lifestyle, and the entrepreneurial venture and its entrepreneurial owner, who is focused on profit and growth (Carland *et al.*, 1984).

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 supports a link between a growth focus and an owner-managers' strategic orientation and entrepreneurial character (Kotey and Meredith, 1997). For example, there is a link between an owner-manager's need for achievement and their growth orientation (Perry *et al.*, 1988). Their desire for achievement must be matched by a capacity to take calculated risks (Brockhaus, 1980, 1987). A management team's capacity to develop commercially valuable knowledge and appropriate it for competitive advantage is also likely to have an important impact on growth (Alvarez and Barney, 2004). Owner-managers' entrepreneurial leanings appear to be important in determining how well a firm survives growth challenges (Macpherson, 2005). Small firm growth is a complex process in which the owner-manager or entrepreneur sets a vision for growth, perhaps after identifying market opportunities. They need to accumulate sufficient resources to enable growth to occur and need to learn how to balance resources to achieve strategic objectives (Kemp and Verhoeven, 2002).

The role of the owner-manager in small firm growth

According to Jones (1992), most barriers to small business growth are found inside the business and the most important factor determining whether a firm grows is owner-managers' ability to effectively manage the growth process (Dalaba, 1973; Sharlit and McConnell, 1989). Effective growth strategies require careful systematic planning and most small businesses lack the resources needed to do this (Shuman and Seeger, 1986). The owner-manager is usually the most important resource asset and his or her managerial competence, and that of other senior managers within the firm, is crucial to its capacity to grow (Watson, 1995). An owner-manager's ability to delegate authority to a professional management team can also prove challenging and many owners dislike the idea of passing responsibility for running the business to professional managers (Hofer and Charan, 1984). The decision to follow a particular strategy (e.g. grow the firm) is likely to be determined by an owner-manager's perception of how feasible and desirable the strategy is and their propensity to follow this course of action (Krueger, 1993). Whether or not an owner-manager decides to follow a particular strategy is likely to be determined by their prior behavioural intentions (Krueger *et al.*, 2000).

The pace of future growth within a small firm is often determined by the owner-manager's commitment to growth and a need to develop new product-market combinations to exploit opportunities (Smallbone *et al.*, 1995). Also important is a firm's ability to adapt and change as threats and opportunities emerge. Firms with too much rigidity and formalisation, or those with no structure or rules, are less likely to succeed than those that strike an effective balance (Stoica and Schindehutte, 1999). As a firm's scale and scope increase, an owner-manager needs to learn how to delegate authority (Roberts, 1999). The owner-manager must learn to interact effectively with their professional management team to whom they will need to delegate authority and the top-management-team needs to have a balance of skills and expertise that compliment those of the owner-manager (Weinzimmer, 1997). These include technical and managerial skills, organisational adaptability and an ability to acquire or use technology. Management skills and logical decision-making are important (Alpander *et al.*, 1990), as is strategic networking (Havenes and Senneseth, 2001).

Entrepreneurial owners who see an opportunity for growth must take account of the firm's expansion potential. Strategic opportunities must be counterbalanced by the firm's resources and ability to build a sustainable competitive advantage from these resources (Barney, 1986, 1991, 2001). Opportunities for growth and securing a competitive advantage in selected markets is likely to be determined by the firm's ability to assemble a mix of resources that offer value, uniqueness, uncertain imitability and a lack of apparent substitutions (Barney, 1991). An owner-manager's ability to leverage a network of internal and external relationships that provide such resources is likely to be a key success factor (Jennings and Beaver, 1997). Other key factors include the firm's track record and its financial, human and marketing resources, as well as how much change the firm needs to undertake if it is to pursue a particular opportunity (Gibb and Davies, 1992).

An owner-manager's capacity to learn and develop their managerial competence, deal with change and think and act strategically is an important point of focus when seeking to understand small firms' growth processes. For many 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, 1985). The inability of the small business to seek the information and technology needed for growth also acts as a potential barrier (Rothwell and Beesley, 1989). Growth increases the risks facing a business and may require an owner-manager to increase their personal debt, which can be a deterrent (Taylor, 1986). Owner-managers may also view growth as potentially disruptive to their employees' well being (Wiklund *et al.*, 2003).

The ability of successful entrepreneurs to avoid formalising strategic planning processes until their firm is well established raises a question as to the relative importance of strategic vision or strategy formulation and strategic planning or business plan development. A study of 135 winners of the Australian Entrepreneur of the Year Award by Ernst and Young (2004), found most (72 percent) considered their greatest contribution to their business venture was their ability to provide vision and focus. Borch and Huse (1993) studied the relationship between internal resources and the strategic orientation of small firms' senior management. They found four types of strategic orientation that compared well with Miles and Snow's (1978) prospector, analyser, defender and reactor typology. They termed their groups as "managerial firms" (which tended to be analysers making use of market strategies for enhanced competitive positioning;), "technological firms" (which were prospector types that used product development growth strategies involving innovation), "traditional firms" (which were likely to avoid growth and risk) and "impoverished firms" (which lacked a coherent strategy) (Borch and Huse, 1993).

Gibcus and Kemp's (2003) study of small Dutch firms found few firms had formal, written business plans or strategies, although approximately a half reviewed their strategy at least annually. At least five distinct strategies were identified that focused on differentiation through innovation, marketing, service, process or cost leadership. Four different strategic postures were identified that emphasised enhanced service with strong cost controls, innovation and marketing with new products, improved processes with enhanced efficiencies, or a "stuck in the middle" strategy that lacked consistency. Such findings point to the paradox of formal and informal planning in small firms. While the use of formal business planning and strategy formulation in small firms is low, this does not suggest such firms are not engaged in planning behaviour as it is often undertaken in informal ways.

Formal and informal business planning

Robinson and Pearce (1984) raised some important questions in their review of small firm strategic planning issues, including the nature of the informal planning process and whether the process was influenced by firm type, location or owners' entrepreneurial characteristics. In one of the earliest assessments of these issues, Thurston (1983) noted the key was not whether a business engaged in formal planning, but senior managers' administrative styles and abilities, the complexity of the business and the strength of its competition, uncertainty in the environment, the cost-benefits of planning and the senior management's expertise in developing and implementing formal plans.

Most small firms do not have written business plans (Unni, 1984) and many owner-managers lack business-planning skills (Posner, 1985). Further, owner-managers have a less sophisticated approach to formal business or strategic planning than do their counterparts in larger firms (Woods and Joyce, 2003). This is generally related to a lower level of systematic data gathering and analysis. However, owner-managers are strategically aware and realise the consequences of their decisions (Rice, 1983). A survey of small Australian firms found the incidence of formal planning in such firms was low and was linked to firm size and sales volume and tended to diminish with age (Gibson and Cassar, 2002). Matthews and Scott (1995, p. 48) found strategic planning sophistication was higher in entrepreneurial firms. However, they also found that, as environmental uncertainty increased, planning sophistication decreased, suggesting:

> One explanation for this counter-intuitive finding may be that successful entrepreneurs are extremely sensitive to the perishable nature of the opportunities they identify in a rapidly changing environment. To take the time to plan under conditions of high uncertainty may result in the loss of that opportunity.

A study of fast growth family owned businesses found most had formal business plans. These were to be sufficiently detailed to allow the firm to provide management compensation against performance benchmarks. Such firms regularly shared information with their employees and linked their performance to business goals and were more likely to seek differentiation and innovation in products or services than they were to compete on price (Upton *et al.*, 2001). Business planning and strategy formulation is likely to be informal and may be influenced by the uncertainty they face and/or managerial expertise or owner-managers' skills.

Business planning, growth and performance

Attempts to measure the benefits small firms obtain from formal strategic planning have been undertaken since at least the mid-1980s. Robinson *et al.* (1984) found the benefits of strategic planning were not linked to the stage of the firm's development and that the impact of such planning varied across these stages. Ackelsberg and Arlow (1985), on the other hand, found a link between planning and financial performance but noted formal planning was not as beneficial as informal analytical planning. A longitudinal study of planning and performance found basic operational planning had a positive impact on performance, but the link between strategic planning and success over time was tenuous (Sexton and Van Auken, 1985). Bracker *et al.* (1988) also found a relationship between managers having a planning orientation and financial performance, with entrepreneurial, opportunistic managers doing best if they engaged in formal planning. However, planning was more beneficial over the longer term than the short term.

Orpen (1985) found the quality of planning was more important than was the time spent on the planning process, but that long range planning was not related to a firm's performance. Further, better performing firms were more likely to engage in sophisticated planning (e.g. making use of consultants and planning committees), consider a wider range of issues and to have longer time horizons. Shrader *et al.* (1989) found small firm formal strategic planning was limited, performance was not strongly associated with formal strategic planning and that operational planning correlated better with enhanced profits and sales than did strategic planning.

Pearce *et al.* (1987) concluded the evidence of formal planning having a benefit to small firms was inconsistent and contradictory, while a meta-analysis found strategic planning offered benefits to small firms, although these benefits were more likely to be felt in highly competitive industries (Schwenk and Shrader, 1993). In a further study, Lyles *et al.* (1993) found formal planning helped small firms make better strategic decisions. However, they concluded the process of planning was more important than was the plan itself. Berman *et al.* (1997) also suggested small firms could benefit from formal planning, while Olson and Bokor (1995) found formal planning enhanced business performance, although this was context dependent, with prior management experience and previous work history being significant factors. Finally, a large-scale study of small Dutch real estate agencies found a weak relationship between planning and performance (Risseeuw and Masurel, 1993). Planning appeared to be stimulated by environmental complexity, with larger firms being more intensive in their planning than were smaller firms. They also found planning decreased with the age of the firm, suggesting owner-managers' knowledge and expertise are proxies for planning.

While there is evidence for a positive relationship between planning and performance, the links between formal planning and performance, particularly financial performance, is unclear. Bracker and Pearson (1986) suggested this raises a question as to whether it is the plan or the planning process that is important as, even though an owner-manager may not have a formal business plan, he or she is likely to be engaged in informal or "intuitive" business planning (Mazzarol, 2001). Bhide (2000) found successful entrepreneurs were unlikely to have formal planning in the early stages of their business development. Of more importance was the entrepreneur's ability to "hustle", using their selling skills and communications ability to secure strong market positions in industries where the possession of proprietary assets was not the main basis of competition (Bhide, 1994, 2000). These largely qualitative observations were supported by Edelman *et al.*'s (2005) study that found the link between a firm's resources and performance is moderated by strategic planning. They concluded the possession of resources was not enough to achieve performance outcomes, as deployment strategies were also crucial. They argued strategy must build on an existing resource configuration if it is to be beneficial and that, for most non-high technology firms, customer service strategies are likely to be more beneficial than innovation strategies.

Small firm strategic planning seems to be an iterative loop between an owner-manager's experience and formal planning. The decision to undertake formal planning seems dependent on there being enough organisational slack to allow the time and resources needed to engage in strategic planning (Shuman and Seeger, 1986). While such planning may be informal, an owner-manager's ability to use strategic thinking to make resource allocation decisions is important.

The process of small firm strategic management

Formal business planning in small firms is often a process in which owner-managers attempt to examine their industry environment systematically and establish a framework and direction for future activities. The first stage is often preparation of a mission statement, an examination of the current situation facing the business and the preparation of forecasts for future growth (O'Gorman and Doran, 1999), after which objectives and strategies are developed. These elements are documented for internal and external stakeholders and a monitoring-evaluation process is established (Linder and Vick, 1984). Finding the best fit between mission, opportunities and the firm's capabilities is frequently a major challenge (Bryan, 1998) and external consultants are often used to assist. However, the owner-manager has ultimate responsibility for the plan and its implementation (Bracker and Pearson, 1985).

For entrepreneurs establishing new ventures, business planning is a balancing of opportunity, resources and team (Timmons, 1999). Opportunity is usually a product or service of the entrepreneur's own creativity or an ability to spot a market opening. There is usually considerable uncertainty associated with such opportunities and an entrepreneur needs to secure resources and to guide the team's activities. However, a strategic plan for an established and growing venture needs to address the interaction and management of strategy in balance with available resources and organisational structure (Mazzarol, 2005; Chandler, 1962)

Within strategy, the most important focus is likely to be the identification of the firm's strategic intent, which includes a clear vision and mission that can guide the business and unite key stakeholders, particularly employees (Hamel and Prahalad, 1989). An owner-manager's ability to identify a feasible growth path or vector is also important (Ansoff, 1965). This growth vector is likely to involve finding new products for existing markets (e.g. an innovation strategy) or new markets for existing products (e.g. a market expansion strategy). However, small entrepreneurial firm strategy is often "emergent" as it involves the identification and pursuit of initially unforseen opportunities (Mintzberg and Waters, 1984). An owner-manager's ability to remain flexible and adaptable when responding to market conditions is important and this may be placed at risk if the strategic planning process becomes too formal and rigid (Anderson and Atkins, 2001).

Methodology

The present study used data obtained from 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. These owner-managers were atypical of the general small business population as they had indicated a growth orientation by choosing to enrol in a course that focused on managing growth. The course lasted approximately 12 months and responses were obtained from a series of annual cohorts that took the course over a seven-year period.

Sample demographics

The majority of the owner-managers in the study were male (88 percent), which is not atypical (ABS, 2002; Hankinson, 2000). All of the firms had less than 200 employees, with the average being 20, and annual turnover ranged from as low as AUD$50,000 to as high as AUD$72 million, with an average of AUD$2.5 million to AUD$3.5 million, placing the firms within the OECD parameters for small firms (OECD, 2004). Of the firms 15 percent were micro-enterprises (less than five employees), 43 percent were small (five to 19 employees), and the remaining 42 percent were medium sized firms (20 to 200 employees). The level of management sophistication was low, with an average of one professionally qualified manager being employed (usually the owner-manager). Only 28 percent of the owner-managers had a formal, written business plan.

Strategic intent of owner-managers

The strategic intent of the owner-managers to grow was measured not only in their decision to enrol in a growth oriented management development program, but also in their stated plans for future growth. For example, 85 percent of the sample planned to increase production in the next three years, 45 percent intended to open new stores or outlets and 77 percent intended to launch new products or services over the same period. Only 30 percent intended 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 AUD$2.4 million to AUD$3.4 million. All of which were indicators of a strategic intention toward growth and evidence of a track record of growth.

Questionnaire design

A questionnaire was developed from an original small business management framework proposed by Hall (1992). The framework has six key dimensions that are common to small high performance firms. The first dimension related to the firm's strategic focus and direction, while the second focused on its marketing and customer orientation. The third addressed the owner-manager's ability to form strategic networks or partnerships with employees, customers, suppliers or third party support network actors, while the fourth examined the firm's organisational culture and values. The fifth addressed quality assurance, while the sixth looked at the firm's control and reporting systems. The framework was developed through a qualitative study of small British firms (Hall, 1992), but has been subsequently analysed quantitatively in Australia (Mazzarol, 1999). The final questionnaire used the 180 items developed in these studies to measure small business performance on five-point Likert-type scales that asked owner-managers to indicate whether they agreed or disagreed with a statement relating to their management practices. For example, strategic focus and direction was measured by such items as "I have a clear vision for my business future" and "I am constantly identifying threats and opportunities to my business". Quality was measured by such items as "I understand the definition of quality in terms of a documented quality system, i.e. ASA/ISO 9000" and "My business already has documented procedures for key areas of operation". The 180 items were arranged with 30 items measuring each of the six key dimensions in Hall's (1992) framework.

The questionnaire also asked about owner-managers' future growth intentions, expenditure on training and marketing and financial performance indicators in the form of four-year gross income and profit figures. Each owner-manager completed the questionnaire before joining the management development programme and the findings were discussed with them at a later training workshop that allowed results to be validated from a respondent's perspective. Although the items were self-reported, their validity could be said to be high as each owner-manager was engaged in a 12-month course in which they were assisted by a business mentor who was typically a professional (e.g. accountant or lawyer) who spent approximately 40 hours with them on an individual basis. As the data gathered were used to assist the owner-managers, inaccurate reporting would have been counterproductive and easily identified.

Scale development

Six separate principal component (factor) analyses were initially undertaken using the 30 items from each of the six dimensions. Kaiser *et al.*'s measure of sampling adequacy (MSA) suggested each of the sets of items had underlying dimensions as the MSA scores ranged from 0.80 to 0.90 (Hair *et al.*, 2007). Factors with eigenvalues greater than one were retained and varimax rotation was used to obtain a simple factor structure. In total, 47 factors were identified in this way. Subsequent confirmatory factor analyses (CFA) of the six dimensions suggested 88 variables should be retained and that 26 factors had good measurement properties. All of the retained factors fitted the data, had construct reliability (CR) scores that were greater than 0.70 and had acceptable average variance explained (AVE) scores as they were all at least 0.50, which suggested they were internally consistent and had convergent validity (Fornell and Larcker, 1981). Further, all of the retained factors had discriminant validity, as their squared correlations ranged from 0.10 to 0.40, all of which were less than the lowest retained AVE score (0.50) (Fornell and Larcker, 1981). Table I lists the retained factors within the initial six-part framework devised by Hall (1992) and shows the items that were used to measure each factor, as well as their chi-square fit statistics, construct reliability and AVE scores.

Development of planning and growth measures

The terms "strategic planning" and "growth" deserve clarification. Strategy formulation refers to the analysis of a firm's external environment and market trends and the allocation of resources to develop a competitive position. The process of "strategic planning" refers to the implementation of these strategies and to the operational management of the business. Heracleous (1998) described strategic formulation or thinking as a "double-loop" process involving continuous, iterative assessments of the firm's strategy, while strategic planning has been likened to a "single-loop" process that sees plans developed and implemented during a defined time period. The present questionnaire was designed to measure strategic planning and operational management, rather than strategic formulation. Growth appears to be related to size and age, with growth slowing as firms mature and become larger (Evans, 1987). However, there remains some debate over the definition and measurement of growth, with a variety of measures being used, including sales, employees, market share, and return on investment, dividends, and earnings per share, annual turnover and assets (Weinzimmer *et al.*, 1998). In the present study, growth was measured in terms of sales or annual turnover, although we recognize there are other indicators.

A new variable was developed as a composite of several items to examine the first question that asked about the managerial factors associated with growth oriented small firms. Respondents were asked about their intentions to increase production, open new locations, introduce new products or services, and open the same business elsewhere and to sell equity in their business. These items were recorded on a binary "yes-no" (1-0) scale that were combined to define a growth construct that differentiated those who were positive on these issues and those who were not. Of the original sample of 204 owner-managers, 79 percent were classified as growth focused. For example, 94 percent of the growth-oriented owner-managers were planning to increase production significantly in the next three years, while this was true for only 52 percent of the other

Table I.
Results of the factor analysis

Factors/items	Chi-square	df[a]	Significance	Number of items	CR[b]	AVE[c]
Focus and direction						
Mission: having a well defined business mission	2.91	2	0.23	4	0.92	0.75
Vision: having a clear strategic vision	0.04	1	0.84	3	0.74	0.50
Core skills: knowing the key skills needed for business success	0.64	2	0.73	4	0.81	0.52
Environmental scanning: for future opportunities and threats	0.04	1	0.84	3	0.77	0.54
Key resources: ensuring a constant supply of key resources	1.14	1	0.29	3	0.74	0.50
Customerising						
Developing customer commitment: customer loyalty	0.33	1	0.57	3	0.75	0.50
Networking: using strategic networking for business advantage	0.01	1	0.94	3	0.66	0.39
Problem seeking/problem solving: solving customer problems	0.05	1	0.83	3	0.75	0.51
Customer delight: customer satisfaction and customer referrals	2.45	2	0.29	4	0.83	0.55
Market development: new business generation and market development	0.32	1	0.56	3	0.63	0.36
Partnering						
Structure and roles: developing strategic partnerships with key people	0.03	1	0.87	3	0.84	0.64
Customer partnerships: understanding customer needs	0.05	1	0.83	3	0.78	0.55
Staff partnerships: employee commitment and loyalty to the firm	1.00	2	0.61	4	0.84	0.57
Supplier partnerships: strategic partnering with key suppliers	5.66	2	0.06	4	0.84	0.58
Support network partnerships: using third party support networks	0.32	1	0.57	3	0.66	0.39

(continued)

Table I.

Factors/items	Chi-square	df[a]	Significance	Number of items	CR[b]	AVE[c]
Personality						
Values: having a clear set of personal and business values to guide action	2.23	1	0.13	3	0.85	0.65
Image: developing and managing corporate image	4.96	2	0.08	4	0.88	0.65
Quality						
Defining quality: viewing quality as a source of competitive advantage	3.30	1	0.07	3	0.76	0.52
ISO9000: having a commitment to formal quality assurance systems	4.90	5	0.43	5	0.83	0.51
Changing beliefs: having the ability to lead change in the firm	1.62	1	0.20	3	0.80	0.59
Premium pricing: having the ability to charge premium prices	4.19	1	0.04	3	0.83	0.63
Systems						
Critical information: internal reporting of critical information	5.15	2	0.08	4	0.89	0.66
Information systems: use of information technology systems	0.49	2	0.78	4	0.82	0.53
Financial control: financial management and control systems	2.35	1	0.13	3	0.78	0.54
Key indicators: use of key performance indicators (KPI)	1.50	1	0.22	3	0.91	0.76
Taking action: the ability to take action if required	0.01	1	0.94	3	0.84	0.63

Notes: [a]When there were only three indicators, two of the error variances were made equal to provide a degree of freedom to assess fit; [b]CR is construct reliability (Hair *et al.*, 2006); [c]AVE is average variance extracted score (Fornell and Larcker, 1981) owners. Of the growth-oriented owner-managers 57 percent intended to open new locations, while none of the other owners intended to do so. Of the growth-oriented owner-managers 35 percent intended to commence exporting within the next three years, while only 12 percent of the other managers had such intentions. Of the growth oriented owners 92 percent planned to launch new products or services, while only 21 percent of the other owners intended to do so.

Formalisation in planning was measured through an item that asked if the respondent had a formal, written business plan. This item was used to examine the second of the three research questions. As already noted, most (72 percent) of owner-managers did not have a formal, written business plan at the time of the survey. A chi-square analysis of the relationship between the possession of formal business plans and growth orientation found no significant relationship between these variables, although 30 percent of high growth oriented owners had plans, compared to 19 percent of the low growth oriented owner-managers.

The third research question examined the factors associated with small firms that were growing fast. The four years of annual turnover figures provided by each respondent were used to compute an annual average sales growth figure that ranged from −295 percent to 61 percent, with a mean of 7 percent and a median of 12 percent growth. The sample was divided into two groups (a low sales growth group (< 7 percent) and high sales growth group (>7 percent)). A chi-square analysis found a significant relationship between having a growth orientation and average annual sales growth, with 73 percent of the growth-oriented owner-managers reporting high average annual sales growth, compared to 53 percent of the other owners. No statistically significant relationships were found between the possession of a formal, written business plan and average annual sales growth.

An analysis was also undertaken to see whether the size of the firm had an impact. The sample was divided into three groups (micro, small and medium firms) and differences in their growth orientation, formal planning and sales growth variables were examined using chi-square tests. However, no statistically significant differences were found.

Findings – growth orientation

A discriminant analysis was used to assess differences between owner-managers who were more growth oriented and those who were less growth oriented and to see whether a small subset of the retained factors differentiated these groups. A holdout sample was not used as predictive accuracy was not the main objective and the sample was relatively small (Birley and Westhead, 1993). One hundred and ninety four respondents were included as some respondents were excluded due to missing data. Rao's stepwise method was used to estimate the single discriminant function (Hair *et al.*, 2006) that correctly classified 65 percent of the cases in the present sample. However, as multi-collinearity can influence the variables included in this type of stepwise procedure, the structural correlations that were greater than an absolute value of 0.30 were used to examine the differences between the two groups (Soutar and Clarke, 1981). Three such factors were found, including:

(1) The "premium pricing" construct (with a structural correlation of 0.48), which suggests that high growth oriented owner-managers recognised the need to charge above average market prices in order to secure future growth.

(2) The "taking action" construct (with a structural correlation of 0.37), which suggests that growth oriented owner-managers were more likely to respond to market opportunities or threats by taking prompt action when the conditions within their task environment changed.

(3) The "changing beliefs and attitudes" construct (with a structural correlation of 0.32), which suggests that growth oriented owner-manager were more likely to feel confident in their ability to lead change within their firm when required to take action in the face of environmental change.

Findings – formal business planning

A second discriminant analysis was undertaken to assess the differences between owners who possessed a formal written business plan and those who did not. Rao's stepwise method was again used to estimate the single discriminant function that, in this case, correctly classified 75 percent of the cases in the present sample. Structural correlations greater than an absolute value of 0.30 were again used to examine the differences between the two groups. Thirteen such factors were found that encompassed both strategic and operational areas of activity. These are shown in Table II, where it can be seen that the firms with a formal business plan were also more likely to have formal quality assurance systems, a formal written mission statement and formal systems for financial control, environmental scanning and key performance measures. Such firms were also more likely to have owner-managers who reported a stronger confidence in their ability to take action and to have the capacity to lead change. These formal planners were also more likely to report having a systematic approach to the development of their company image and the development of new business and markets. They also indicated a stronger willingness to make use of outsiders such as accountants, bankers and third party support network actors to assist them in planning. For these owner-managers, strategic networking was more likely to be viewed as an important task for them and their senior staff. Such firms also reported having well developed information management systems to aid in reporting.

Factors	Structural correlations
Standardized canonical discriminant function coefficients	
ASA/ISO9000	0.61
Mission	0.59
Financial control	0.52
Environmental scanning	0.52
Key indicators	0.42
Taking action	0.41
Critical information	0.39
Image	0.39
Support network partnerships	0.39
Market development	0.37
Information systems	0.36
Changing beliefs and attitudes	0.32
Networking	0.30

Table II. Structural correlations – formal business planning

Findings – average annual sales growth

A final discriminant analysis was estimated to assess differences between owners who reported above average annual sales growth over the previous four years and those who reported below average sales growth. Rao's stepwise method in this case in this case, correctly classified 66 percent of the cases in the present sample. Ten structural correlations that were greater than an absolute value of 0.30 were found in this case. These are shown in Table III where it can be seen that those firms that reported above average sales growth were more likely to have a systematic approach to new business and market development as well as a clear sense of strategic vision. The owner-managers from these firms were more likely to feel that their firms were capable of taking action if required to respond to changes in their task environment, and to be able to effectively lead change in their firm. They also felt more confident that they had a secure clear sense of the core skills needed to maintain a competitive advantage as well as security in the supply of key resources. Their relations with key suppliers were also strong and partnership-like and they reported a more systematic environmental scanning for potential threats and future opportunities. Finally, these high growth owner-managers were more likely to feel that they had strong customer commitment and the ability to satisfy or delight customers with their products or services.

Discussion

The present study examined three research questions, namely:

(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 do?

Managerial factors associated with growth orientation

Prior research highlighted the importance an entrepreneurial orientation has in fostering a desire for growth (Lumpkin and Dess, 1996), but it also points to the importance of non-financial motivations for growth and owner-manager's concerns

Factors	Structural correlations
Standardized canonical discriminant function coefficients	
Market development	0.72
Vision	0.54
Taking action	0.45
Key resources	0.42
Changing beliefs and attitudes	0.40
Core skills	0.38
Supplier partners	0.35
Environmental scanning	0.33
Customer commitment	0.33
Customer delight	0.30

Table III.
Structural correlations – sales growth

about such growth impacts on employees (Wiklund *et al.*, 2003). The present study suggests growth oriented owner-managers have the confidence to charge premium prices due to the quality they feel their business can offer its customers. Such owner-managers might also have a stronger drive toward proactive action taking. However, such owner-managers also need to feel confident that they can add value to their product or service through innovation and quality control, and to use this added value to command a price premium.

High performance has been associated with long-term vision, premium pricing and environmental scanning by other researchers (Covin and Slevin, 1989). The present findings support this earlier research and suggest owner-managers who have the confidence of their product or service quality, and who engage openly with their employees and aim to foster an attitude of continuous improvement and change, taking action to enhance the firm's product or service offerings to customers are likely to have a growth orientation. It also supports prior research that suggests owner-managers seek employees who fit into the firm's culture and who can adapt as the firm grows (Heneman *et al.*, 2000). These findings need to be considered in the context of the present sample of owner-managers who had expressed a desire to grow their businesses, but it does provide additional evidence as to the importance of effective human resource management and the critical role owner-managers play (Kerr and McDougall, 1999).

Formal business planning versus informal business planning

As was noted earlier, the merits of formal business planning are unclear. While there is evidence to show planning has some benefit to small firms, there is debate as to the merits of formal documented business planning, which is likely to be influenced by external environmental factors (Selvin and Covin, 1997). Bracker and Pearson (1986) argued planning can take the form of unstructured plans, intuitive plans, structured operational plans and structured strategic plans, suggesting formalisation is a transitional process, rather than a one-dimensional element (e.g. have or do not have a formal written plan).

The findings suggest that formal planning is associated with formality in both strategic and operational areas. For example, the formal planners were more likely to have formal written mission statements and to use them to focus employee action. These firms also had a more systematic and formal approach to environmental scanning for opportunities and threats, new business development and strategic networking. However, most of the factors associated with formal planning were more operational in nature. This included formal quality assurance, financial control and information systems, key performance measures and the monitoring of critical information on business performance. The pattern emerging from these findings is that the more formal planners are more likely to have more formal systems of operational management and quality control. This is not surprising as formal planning is likely to encourage or even demand such formalisation of company systems. It is also worth noting that such formal planners were also more likely to have strong support network partnerships, suggesting that they worked fairly closely with outsiders such as their bank manager or accountant to help them access resources and secure help. Typically such professionals encourage small business owners to prepare formal business plans, either to secure third party investment or as a mechanism to assist their business operations.

The presence of strong support network partnerships, formal quality assurance practices and the ability of the owner-manager to lead change within their organisation through the effective communication of their vision all seem to characterise the formal planner over their more informal counterpart. This is consistent with other research that highlighted the importance of strategic networking (Ostgaard and Birley, 1994; Donckels and Lambrecht, 1997; Shaw, 2006). Strategic networking and alliance formation can assist the growth process by securing access to resources. It is not possible from the present study to determine if owner-managers had developed a formal written business plan because of these qualities or if they had emerged because of them. 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 include professional advisors who require, or at least encourage, the development of a formal documented business plan. Accountants, for example, often help to formalise reporting systems and there is evidence that such external advisors improve firm performance (Kent, 1994).

The present findings also indicate an association between formal planning and formal quality assurance. Formal business planning and formal quality assurance measures would seem to be logically associated and any small firm that is ISO/ASA 9001 quality assured would need formal business plans. Despite the recent emphasis on formal quality assurance, there is a question as to the value of such systems for small firms (van der Wiele and Brown, 1998). However, formal quality management systems are not by themselves a guarantee of success and must become a part of the firm's organisational culture (Nwankwo, 2000). As the present findings show, firms with a formal planning process were more likely to have formal quality assurance processes, but also a clear understanding as to the significance of these systems. This finding is consistent with Chittenden *et al.*'s (1998) research that found ISO accreditation was strongly associated with formalised management structure, although they concluded the cost of such accreditation was high, recommending formal quality assurance be relaxed for small businesses who can otherwise meet quality benchmarks. Formal quality assurance is likely to be of value only if it takes place within a wider framework within which the owner-manager addresses the strategic and operational issues that have been highlighted in the present discussion.

Carland *et al.* (1989) found that owner-managers who develop formal business plans were more likely to be focused on innovation and to have a higher risk-taking propensity and need for achievement. They were also found to have larger numbers of managerial levels within their businesses, suggesting a relationship with the size of the firm. The present study found no relationship with size and did not measure owners' psychological attributes. However, it did suggest high growth owner-managers are more systematic in their analysis of their external and internal environments. However, as Woods and Joyce (2003) noted, small business owners use fewer planning tools than do their counterparts in larger firms. A lack of knowledge or education in the use of such tools is likely to be the main barrier to adoption. The decision by owner-managers in the present study to enrol in a management development program focusing on the management of growth is evidence of their recognition of the need for such education.

Factors associated with faster growth

Above average sales performance over a four-year period is not necessarily long term success, but it does provide a useful measure of growth. The present findings suggest owner-managers who have above average sales growth have firms in which there is an effective business generation system and recognition of the importance of selling proven products or services in existing markets, while planning for the development of new market opportunities. The findings also point to the potential importance of owner-managers having a capacity for environmental scanning to collect market intelligence, spot threats and opportunities and to seek some control of environmental influences. This is consistent with earlier research that suggests environmental scanning is a key element in successful business management, although small business owners are likely to adopt have more informal practices than their counterparts in larger firms (Smeltzer *et al.*, 1988). The findings are consistent with Beal's (2000) research that found the frequency with which an owner-manager scans the environment might not be as critical as the quality of their scanning process. Such owner-managers are likely to have a clear personal vision for their business and to scan the external environment systematically to ensure they are able to maintain a positive outlook. This systematic analysis also leads to an assessment as to what it takes to delight customers and to use this information to undertake future market development. Such owner-managers do not seek to compete within price sensitive markets, but try to find niches win which they can offer products and services at a price premium. Their cultures are likely to be action orientated and employees are viewed as partners in this process.

The findings suggest above average growth may be associated with an owner-manager's 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. This is consistent with earlier research that highlighted the need for small firms to develop their human resource practices and adopt a strategic approach to the management of employees (Wyer and Mason, 1998). Chesbrough and Rosenbloom (2002) drew a distinction between the strategy followed by a firm and its business model, arguing the latter focuses on value creation for customers, the business and shareholders and the firm's ability to learn and adapt to market needs. These findings support this contention as they suggest firms with above average sales growth are more likely to have a positive market outlook based on a business model in which they sell proven products to delighted customers within market segments that have strong growth prospects.

Conclusions

Despite there having been a significant amount of research undertaken on strategic business planning and the process of growth within small firms, there remains little published research on how owner-managers within small firms handle the practice of strategic management (Woods and Joyce, 2003). This study contributes by offering empirical evidence about the strategic management behaviour of owner-managers from small firms. The study has limitations. It drew on 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 weaknesses. Future research should seek to obtain a larger sample and track performance over time using longitudinal data sets. A more robust measure of growth and performance, which also includes employees, sales turnover, profitability and capitalisation, would be desirable. Nevertheless, the present findings have implications for the education of owner-managers from small firms, suggesting they should focus on developing managerial systems to benchmark their business against industry best practice. Owner-managers 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 having a clear strategic vision for their venture and of the need to communicate this vision to others, particularly employees.

The possession of a formal, documented business plan is not a guarantee of successful growth. However, as the owner-manager seeks to communicate their intentions within their wider support networks, it is likely they will need to prepare such plans. Applying for government support grants or bank loans usually requires the development of a written business plan, as will a move to achieve formal quality assurance recognition. The possession of a formal business plan may not directly improve business performance, but the process of developing such a document is likely to require the owner-manager to review their firm's vision, mission and external market environment and outlook. It will also require them to consider their internal and external critical information and the key information that allows them to monitor their financial performance. The possession of good information technology systems that collect and report such information is highly desirable. Owner-managers are also likely to benefit from establishing strong external support networks, as well as forming strong organisational cultures that make employees feel more like partners.

Most small business owner-managers plan intuitively and the majority avoid formal business plans until external forces require it from them. Owner-managers seeking to grow are likely to benefit from a supportive organisational culture in which 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. As noted in the literature review, the most important thing is not the drafting of a business plan, but an 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 that small business owner-managers develop strategic thinking skills that allow them to stand back from the mundane and look holistically at their business and its environment. The present findings suggest the need for owner-managers to have a clear strategic vision for their business, a capacity to scan the environment and balance strategy and an appropriate structure and culture. Their ability to secure the resources they need is likely to be associated with their leveraging of support network partnerships and the cultivation of positive 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 skills can be developed through education programs that foster creativity, strategic thought, critical analysis, teamwork and strategic networking. While some focus should be given to planning skills, the task of drafting a plan should follow the development of strategic thinking skills, rather than lead it. Formal education programs need to be flexible and tailored to the needs of the small firm sector, in which owner-managers are typically busy and lack the time to commit to lengthy courses. Further, the curriculum for small business education needs to be focused less on 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.

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