

## Strategic process and small venture growth: The moderating role of environmental scanning and owner-CEO

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### ABSTRACT

The strategic processes that were followed by small firms are the main contributors to the growth of these firms. Therefore, the aim of this study is to investigate the contribution of the strategic process to the growth of ventures by taking environmental-scanning and owner leadership as a moderator. In order to achieve this objective, a sample of 210 firms grown to emerging medium enterprises has been selected and used to obtain primary data. The findings of the study show that the growth of ventures and strategic process practices among these firms are moderate. The strategic processes employed were the main contributors to the growth of ventures. When trends and events in the environment are understood, the strategic process dimensions that include participating in strategic decision-making, modes of forming a strategy, and learning from mistakes strategically will be intensified towards influencing the venture's growth. Venture growth is better among the firms who were led by owners themselves and learn from their failures. As firms scan their environment, they tend to exploit and practice suitable strategies that contribute to the growth of the ventures. As a result, the owners/managers of these small ventures should advance their current practices of strategic processes by encouraging workers to participate in decision making, developing effective planning, and learning from their mistakes by scanning both the external and internal environments.

### Introduction

Small firms contribute to the development of most economies. Ethiopia is among the developing countries in which most of the people's livelihood is dependent on agriculture. Earlier, the country developed the agricultural development led industrialization policy. Recently, micro and small enterprises are receiving attention, because small firms are the main contributors to successfully transforming the agricultural led economy to industry-led economy. However, for the successful transition of small firms, appropriate strategies are required for the growth of ventures. But, some small firms are competing against larger firms and facing challenges in developing sustainable strategies for building and maintaining relative competitiveness against these larger firms (Bianchi, Winch, & Cosenz, 2012).

As previous research states, many small firms fail at

an early stage and do not get a significant growth route (Storey, 1994). This happens because most of these small businesses are serving local markets with imitative businesses (Reynolds, Bygrave, & Autio, 2004). Similarly, McKaskill, 2010 stated that the majority of these firms have not gained traction to proceed to the next phase. In Ethiopia, many small firms fail at an early stage. For instance, Ageba and Amha, (2006) surveyed 11,000 micro and small-scale enterprises and found that most of them have constraints such as working space constraints, credit and finance constraints, rigid regulatory framework, poor techniques of production, input constraints, information constraint, lack of skill, poor strategy, lack of interest in training and workshops. Majority of the above problems were associated with poor strategy development.

By adding more outputs and stimulating competition in the market, the growths of new ventures have created more opportunities for employment and improved the quality of life (McDougall & Robinson, 1990). Further, the develop-

ment of ventures can be considered as a revitalization device for developed country's markets and a forceful instrument for emerging markets (Li & Atuahene-Gima, 2001; Zhao & Aram, 1995). Accordingly, the required high growth creates a business that supports the high growth firms (McKaskill, 2010). Among the different factors that influence the venture's growth, one is the strategic process followed by small ventures. These are the strategy processes that concern the way business starter's deal with situations including its applicability to any content (van Gelderen, Frese, Thurik 2000). Accordingly, the presence of the aforementioned processes has little consequences if they cannot progress the performance of firms (Verreynne, 2005) and growth of ventures. According to Menzel & Günther (2012) strategy formulation is successful in small enterprises when it is developed in relation to the factors such as personal, firm, and external environment in which the firms operate.

While the complexity of various organizational tasks simultaneously increases, organizational growth brings an enforceable strength of that hands-on capability (Sophia & Owuor, 2015). However, aligning the strategic orientation of the organization to its environment has paramount importance for success (O'Regan, Kling, Ghobadian, & Perren, 2012). Therefore, there is a high necessity to scan the environment (Jogarathnam & Law, 2006). In this action, both a resource-based view (Campbell & Park, 2017; Runyan, Huddleston, & Swinney, 2006; Wiklund & Shepherd, 2005) and external factors (Liao, Kickul, & Ma, 2009; Campbell & Park, 2017) should be considered in scanning the environment. This is because, strategic planning is considered a rational process used to uncover the opportunities and threats created by the environment of the business and to identify the strength and weakness of the business (Williams Jr., Manley, Aaron, & Daniel, 2018). Additionally, by serving as CEOs, founders of the firms have continued to put pressure on the strategies and pursue their distinctive goals (Jaskiewicz, Block, Combs, & Miller, 2017; Chua, Chrisman, & Bergiel, 2009). On the other side, risks and forecasting problems of instability of the current economic condition is increased because of intense competition (Ndirangu & Mukulu, 2014). One reality is that competitors with larger pools of strategic resources have greater flexibility in managing their external environments (Bianchi et al., 2012). This is because the benefits from the new innovation will not be successful without sufficient finance, marketing, production competencies (Mazzarol, 2004) and other resources.

Several studies conducted and examined on testing the impact of entrepreneurial orientation (strategy content) on small venture growth and performance were discovered, even if little is done on strategic processes. However, Co-

vin, Green, and Slevin, (2006) used strategic process dimensions as moderators in testing the influence of entrepreneurial orientation on the growth of sales. Therefore, this paper is among the first to test the influence of strategic process dimensions such as participation in strategic decision-making, modes of strategy formation, and learning from mistakes strategically as the main effect. Moreover, the study used environmental scanning and venture leadership as moderators in the above relationship, which were not identified from previous studies. As a result, it's hoped that this study may put the debate further on the issue of the strategy process and growth of small ventures under the circumstance of environmental scanning and firm founder.

## Theory and Hypotheses

### Entrepreneurship and Strategic Management

In line with understanding the growth of ventures, the conceptions of the entrepreneur share the same common goal with strategic management (Ireland, Hitt, & Sirmon, 2003; Weezel, 2009). Even though they are different in focus, both concepts of strategic management and entrepreneurship are inevitably interrelated and support each other (Ireland et al., 2003). For instance, entrepreneurs who have the character and behavior of innovation tend to use strategic management (Okhominia, 2010). Accordingly, some scholars suggest integrating the two fields, while others have developed independently of each other despite the shared focus (Hitt, Ireland, Camp, & Sexton, 2001).

van Gelderen et al., (2000) stated that strategies are used differently in different ways of combinations and preferences in different situations. Various theories of strategic management were associated with large firms since the subject is largely associated with large corporations (Mazzarol, 2004). However, there are a significant group of small companies competing against multinational firms in major markets (Bianchi et al., 2012). Therefore, the entrepreneurial ventures require the use of strategic management to strategically plan and organize the combination of product and market (Mazzarol, 2004).

### Strategic Processes in Small Firms

Strategy making is an organizational-level process that takes in different activities of the firms that used to plan and act out the firm's goals and strategic missions (Dess, Lumpkin, & Covin, 1997). We can also consider strategies as an individual level plan of action that influences the way of performing things (van Gelderen et al., 2000). Various scholars examined the strategic process and contents (eg.

Dess, et al., 1997; Hart, 1992; Olson & Bokor, 1995; van Gelderen & Frese, 1998). That is, the strategy used by small businesses can be studied by both strategy content (what they do) and strategy process (how they do it) (van Gelderen & Frese, 1998).

According to Olson & Bokor (1995) the strategy process is the way in which strategic content is formulated and implemented. The strategy can be studied from the perspective of a process (Gibcus & Kemp, 2003). Depending on organizational-level research of the strategic process, Janczak, (2005) confirmed that the school of decision-making development focus is moving from a content to a process. This is because the manner of dealing with situations and their applications to content has been concerned with the strategy processes (van Gelderen et al., 2000.).

Earlier, strategy formulation can be considered a process of a firm by itself, rather than the skill commencement of a single mind (Andrews, 1971). Here, the strategic process research can be categorized as the process of choice (making decision strategically) and the process of implementation (strategic change) (Pettigrew, 1992). Therefore, the organizational level aspects of strategy making include the planning, decision making, analysis, and other issues of the organization (Hart, 1992). Later, Covin et al., (2006) classified the strategy processes as participativeness in strategic decisions, the modes of strategy formation, and strategically learning from mistakes.

### **The Influence of Strategic Processes on Venture Growth**

Regarding the growth of ventures, little is done on using growth as an indicator of performance growth (Omar, Lim, & Basiruddin, 2014). However, there are different views and thoughts among researchers on the growth of ventures. Some of these researchers argue that the path of the growth that the small firms are using is predictable, while the others argue that this growth is opportunistic rather than the predictable one (Gupta, Guha, & Krishnaswami, 2013). To attain superior growth, organizations must be efficient and effective in achieving their objectives (Wu, 2009).

The strategic decision literature shows that decisions can directly affect not only the success of the firm, but also the nature of the firm as a whole. Hence, strategy and strategic decisions can have paramount importance in determining the outcome of the firm performance (Janczak, 2005). Accordingly, the combination of resource-based view, as well as stakeholder approach with strategic management, will contribute better to the performance of small firms (Campbell & Park, 2017). Specifically, the growth and successfulness of the firms depend on the strategic process. More specifically, Ketchen Jr, Snow, and Street et al (2004)

stated that the success of ventures are improved when managers give considerations to the extent of participation and decision making comprehensiveness. Hence, the presence of strategy processes followed by small enterprises has little consequence with the absence of a potential used to progress the performance of firms (Verreynne, 2005). The contribution of each strategic process to ventures success and growth has been discussed below.

### **The Influence of Strategic Decision Making Participativeness on Venture Growth**

With consideration to the actions that maintain strategy (Janczak, 2005), the way of decision-making in relation to strategic issues has an implication on the behavior of entrepreneurs (Weezel, 2009). Similarly, with consideration of creating wealth, the integration of entrepreneurial and strategic perspectives can be examined (Hitt et al., 2001) for contributing to the venture's survival and growth. There are differences in strategic issues, which could affect the extent of top-level management participation in making decisions (Gündüz, 2014) that in turn influence the growth and success of small ventures. Particularly, participativeness in strategic decision-making is the amount in which decisions are made by consensus or by top executives (Covin et al., 2006).

The owners/managers decision making participativeness is an important factor that determines processes of decision making successfulness since they can be affected by the lower-level people (Bower, 1970, Janczak, 2005). Strategy making in combination with strategy and environmental issues is most strongly related to the firm's performance (Dess et al., 1997). Similarly, Janczak (2005) states that strategic decisions are the decisions made by top-level people infrequently and have an impact on performance and growth. As a result, they are making decisions through consensus, the management tends to overcome few of their strategic problems (Gündüz, 2014).

According to Frese, van Gelderen, & Ombach, (2000), strategy making through participation is one of the highly related factors with the success of the firms. Likewise, Ketchen, et al (2004) finds that the success of the firm will be improved when the amount of participation and all-inclusiveness in the process of decision is supported by managers. Parnell and Crandall (2001) also identifies the possibility that strategic decision-making participativeness will enhance the quality of decision and organizational effectiveness. Accordingly, the level of strategy making participativeness is related to the improvement of firm performance (Verreynne, 2005). From this, we propose that strategic decision making participativeness positively influences venture growth.



**Hypothesis 1.** Strategic decision-making participativeness positively influences ventures growth.

### **The Influence of Strategy Formulation Mode on Venture Growth**

Even if the question of whether a strategy is the result of formal planning or emergent remains still, the formation of strategy has been considered as a heart of strategic management for more than three decades (Wongsawan, 2009). If well implemented by the firm, strategic planning is effective towards growth (Sophia & Owuor, 2015). That is the reason for which many entrepreneurs tend to comprise different strategic perspectives in their activity (Kraus & Kauranen, 2009). In most cases, the formulation of strategy requires different factors associated with a firm, personal, and external environment (Menzel & Günther 2012). Therefore, the formulation of strategy can be considered as a process (Janczak, 2005).

Previous studies have not considered the specific activities in the process of strategic planning (Arasa & K'Obonyo, 2012). Authors such as Sophia & Owuor, (2015) state that the separation of the process of a perceived strategy planning from the action and being unrealistic becomes an obstacle for the growth of firms. Likewise, Kraus, Harms, and Schwarz, (2008) also discover that the extent of formalization has a significant positive effect on the firm's performance. That means, the personal strategies used by leaders influence the performance of their firm (van Gelderen et al., 2000). Small to medium enterprises (SMEs) are more likely to use planned versus emergent strategies when founders perceive high uncertainty in the competitor environment (Droege & Marvel, 2009). As Covin et al., (2006), comparatively strategies that are emergent help to keep successful operations under the conditions of easily unknown defensible and planned strategic paths. Therefore, we tend to use emergent strategy formation mode as a determinant of a firm's growth.

**Hypothesis 2.** The use of emergent strategies positively influences venture growth.

### **Strategic Learning from Failure and Performance**

Without utilizing their strength, small ventures become susceptible to large companies' competition (Lobontiu, 2002) and learn from their failure. Covin et al. (2006) defined strategic learning from failure as the firm's self-reported proficiency at identifying its strategic mistakes or failed strategies, the causes of those failures and the lessons

of those failures. More clearly, strategic learning involves a process in which firms continuously creating and reformulating strategies (Voronov & Yorks, 2005). Strategically learning from mistakes is about discovering and detecting the difference between the past and current situations with their causes and effects (Carmeli, Tishler, & Edmondson, 2012). Accordingly, the firms are learning from their strategic mistakes by considering the knowledge they gained from past experience and using them as a foundation for further making of decisions (Covin et al., 2006). This learning from failure will enhance the growth of small ventures. From this, we proposed the following hypothesis.

**Hypothesis 3.** Strategically learning from failures positively influences venture growth

### **The Moderating Role of Environmental Scanning**

Both new opportunities and threats emerge when uncertainty is growing and the speed of change is increasing (Shane & Venkataraman, 2000). Therefore, the soul of entrepreneurship is on discovering and exploitation of the opportunities, while the way these opportunities are transformed into a competitive advantage is the soul of strategic management (Kraus & Kauranen, 2009; Kuratko, Ireland, Covin, & Hornsby, 2005; Venkataraman & Sarasvathy, 2001; Zahra & Dess, 2001). The need to improve strategic decision is linked to changes in the current environment and the difficulty that managers in decision-making (Papulova & Gazova, 2016). As a result, the scanning of the environment is used to detect the trends of business opportunities and challenges to organizational success (Jogarathnam & Law, 2006).

In order to have a successful integration of competitive strategies and requirements of the environment as well as exceptional performance achievements, effectively scanning the environment is a necessary condition (Karami, 2008). That is, integrating strategic orientation with the environment has paramount importance for the success of ventures (O'Regan, et al., 2012). This is because the necessity to adjust the organization to its environment is undertaken by a way of strategy that needs the firms understanding about what happens around them (de Lorenzi Cancellier, Junior, & Rossetto, 2014). As a result, scanning the environment is an essential task that needs to be considered in times of a firm's growth.

Since organizational growth brings an inevitable dilution of hands-on capability (Sophia & Owuor, 2015), a great necessity to environmental scanning and to the act of anticipating different factors that affect change (Jogarathnam & Law, 2006). Strategic planning can be considered as a

rational process of uncovering the external threats and opportunities, as well as internal strength and weaknesses in order to use the tracked information for formulating a plan that aligns the firm to its environment towards enhancing a firm's performance (Williams et al., 2018; Tell, 2012). Internally, a resource-based view (RBV) considers strategies are derived from resources internal to the environment (Campbell & Park, 2017; Runyan et al., 2006; Wiklund & Shepherd, 2005) that holds sustained competitive advantage rests on organization resources (Priem & Butler, 2001). However, there is a lack of sufficient resources among many small ventures decision-makers to create a formal system of environmental scanning that helps them (Liao, et al, 2009). This is because small business performance is influenced by the importance of society, external stakeholders, and corporate social responsibility (Campbell & Park, 2017).

Primarily, the way of acquiring information from external environments is through the process of scanning the environment (Jain, 1984; Jogaratnam & Law, 2006; Olsen, Murthy, & Teare, 1994). However, there is a lack of study that integrates the approaches of resource-driven and approaches of relation-driven, or an integrated study that includes a resource-driven to strategic management (Campbell & Park, 2017). Hence, this study focused on integrating the resource-based view and external environment to scan the environment.

The successful formulation of a strategy of small ventures associated with different factors including the personal, firm and external environmental factors (Menzel & Günther 2012). According to Dess et al., (1997), entrepreneurial strategy making is more strongly related to a firm's performance in the case it was integrated with strategy and environmental situations. Particularly, the process of planning is inflexible and rigid because of its operation in the changing environment, in which unfavorably affected by the weak adaptation to environmental change (Sophia & Owuor, 2015). In coping with an uncertain environment, it requires inclinations toward planned strategy while an attempt to capitalize on opportunities arising from this uncertainty requires inclinations toward emergent strategy (Droege & Marvel, 2009). As Eisenhardt & Martin (2000), comparatively, the firms situated in less dynamic environments can perform detailed and stable processes than their counterparts (O'Regan et al., 2012). Besides, there are studies that consider strategic planning occurred with a formal written plan only (Williams et al., 2018; Gibson & Cassar, 2005). In general, environmental scanning is about learning the different events and trends in the organization's internal and external environments (Hambrick, 1981). As a result:

**Hypothesis 4.** Environmental scanning intensifies the in-

fluence of (a) strategic decision making participativeness (b) using emergent strategy and (c) strategic learning from failure on ventures growth.

### The Moderating Role of Owner-CEO

There are researches that suggest the organizational structure designed by the owners/founders have influenced the performance of the firms (Baron, Hannan, & Burton, 1999). Abebe & Alvarado, (2013) stated that the performance of firms led by the founders themselves is significantly different from the firms led by employed managers. This omnipresent influence and dominance in decision making by firm founders brings equivalence in the individual and organizational level analysis (Dickson & Weaver, 1997). Despite the fact that the owners of firms are influencing their strategies and pursuing their goals, they should hire non-owner CEO who will not fully fulfill the owner's goals (Jaskiewicz et al., 2017; Chua et al., 2009).

Among the different findings, Abebe & Alvarado, (2013) find that firms led by non-founder firms performed better than firms led by owner CEO's. Conversely, Zhang, Wang, He, Wang, Mei, and Lian, (2010) found that the turnover of founders has a significant and negative effect on the performance of the firm. CEO relational leadership (Carmeli et al., 2012) is a key to supplement trust that facilitates learning from failure. Besides, Kaplan & Reishus (1990) and Gilson (1990) state that firms who were more likely take the non-founder leadership performs higher than their counterparts and Cowling, (2007) found that the non-owner CEO is positively associated with the growth prospects. Therefore, the strategies developed by small business owners have a relationship with the firm's performance (van Gelderen et al., 2000). From these, we propose that:

**Hypothesis 5.** The influence of (a) strategic decision making participativeness (b) use of emergent strategy, and (c) strategic learning from failure on ventures growth were intensified when the owners themselves led firms.

### Control Variables

The strategic process and firm's performance was varied because of the firms age, firm size, and their sectors (Lumpkin, & Dess, 1996; Shirokova, & Sokolova, 2013; Van Doom, Jansen, van den Bosch, & Volberda, 2013; Wales, Gupta, & Mousa, 2013; Shirokova, Bogatyreva, & Beliaeva, 2015). The researches on small ventures tend to equate the individual and the firm level of analysis because of the dominant influence of the founder on their firm (van Gelderen & Frese, 1998). Therefore, both individual-level

analysis (gender and educational level) and firm-level analysis (firm age and size) were used to control the relationship. For instance, the gender of the founder played a role in influencing small ventures growth (Lorunka, Kessler, Frank, & Lueger, 2011). Accordingly, many of the studies revealed that females are less likely to become entrepreneurs compared to their male counterparts (Minniti & Nardone, 2007; Allen, Elam, Langowitz, & Dean, 2008; Wagner, 2007; Bernat, Lambardi, & Palacios, 2017). On the other hand, other authors stated that many of the determinant factors in entrepreneurship are not different among male and females (Bernat et al., 2017).

The small firm's strategic management behavior will be affected by the owner-manager educational level characteristics (Olson & Bokor, 1995). Despite the fact that the findings on the impact of education are not the same, the studies conducted in developed countries reveals that there is a significant positive coefficient for the education variable (Bernat et al., 2017). Particularly, Pajarinen, Rouvinen, and Ylä-Anttila (2006) stated that entrepreneurs who have better academic background tend to be innovative in doing their business (Gupta et al., 2013). That means, as the entrepreneurs are educated more, they are thinking and acting strategically than their counterparts (Kraus et al., 2008). Similarly, Gibson and Cassar, (2002) stated that CEOs who have degrees from university tend to plan more repeatedly compared to others.

Small firms strategic planning seems to depend on the size of the firm (Stonehouse & Pemberton, 2002) because the complexity and style of the strategy-making process may be affected by firm size (Dess et al., 1997). Regarding this strategic planning, small firms are more flexible than the larger firms, but they lack the experiences and knowledge required for planning in advance (Ramanujam & Venkatraman, 1987). That means, the larger firms tend to involve more in planning and also tend to follow more complicated procedures in planning (Masurel & Smit, 2000).

According to Rue and Ibrahim (1998), for larger firms, a time period of three years is used for strategic planning. However, among small firms, a shorter time can also be used for strategic planning (Kraus et al., 2008). Regarding the age of the firm, the older firm has more hierarchy and inertia that motivates them less in shifting the direction of the organization through new product and service innovation (Huergo & Jaumandreu, 2004). Accordingly, Luo, Zhuo, & Liu, (2005) found that the older firms were less likely to reveal strategic behavior than younger firms. Conversely, younger firm leaders that do not have strong and well-established business processes, knowledge of the market, and established norms, faced diminished capacity in linking their strategies with performance (Slevin & Covin, 1997). Generally, the overall framework of this study was provided in Figure 1 below.

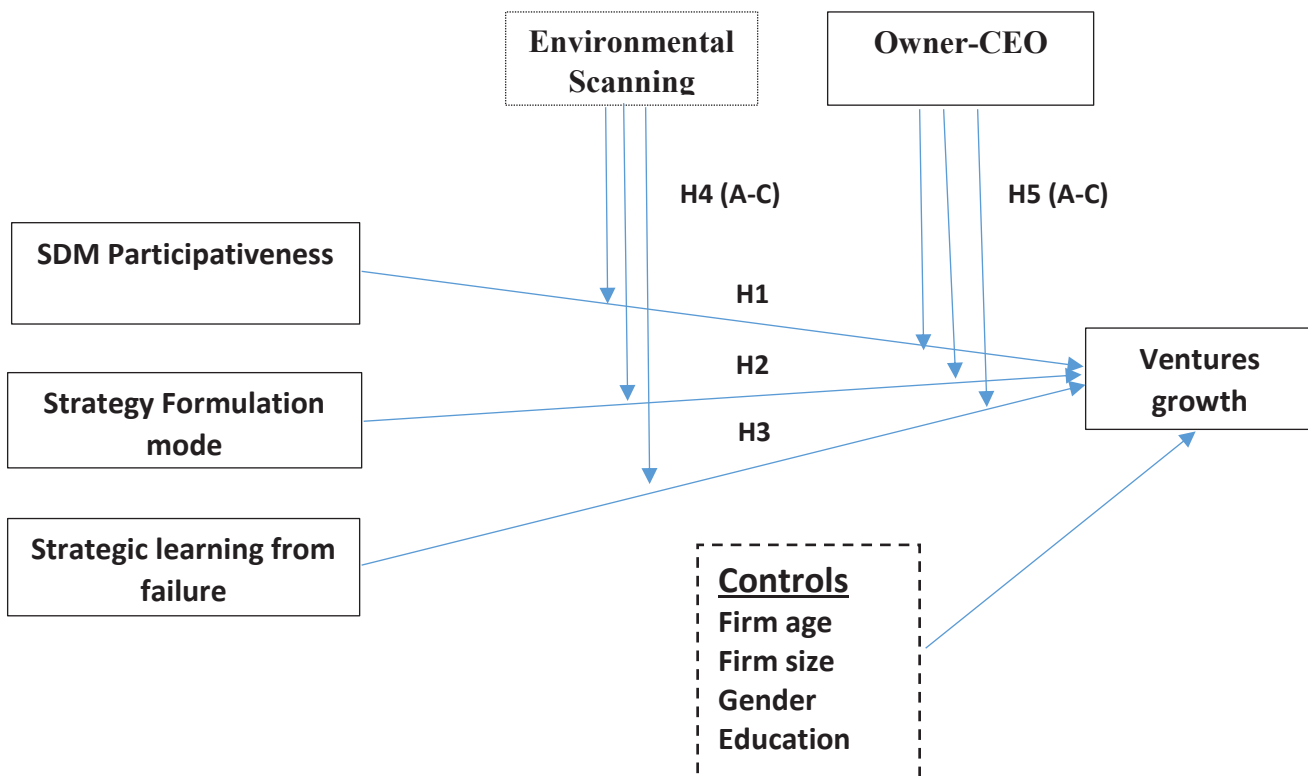


Figure 1: Conceptual Model

## Method

For this research, descriptive and explanatory research designs were used to analyze information gathered through a questionnaire. A total of 226 sample respondents from small firms owners/managers were selected using two-level multi-stage sampling, from which the response of 210 firms were validated and used for analysis. The data used for this study was gathered through a structured questionnaire from small firms in Ethiopia. In addition, the micro and small enterprises development strategy manual document was assessed.

## Instruments

For this study questionnaire and information obtained from annual reports of micro and small scale development offices were used. The questionnaire was partly developed using a seven-point Likert scale and distributed to small firm owners/managers. The questionnaires consist of three parts and fulfills the required variables for the validity and reliability of the research result have been distributed to the selected respondents.

Accordingly, the first part of the questionnaire is about the general information of the respondents such as gender, educational level, firm size, age of the firm, and whether the firm is led by the founder or not. For gender 0 is coded for females and 1 is coded for the male. Kosa, Mohammad, & Ajibie, (2018) measured firm age as owners/managers self-reported years when they were established. Firm age is a dummy variable, which is coded as 0 for firms that are younger than ten years, and 1 for firms older than 10 years.

To determine the size of firms, we tend to use the total number of employees (both permanent and temporary) in the enterprise. This dummy variable is also coded as 0 for enterprises whose total number of employees are less than 30 and 1 for enterprises whose total number of permanent and temporary employees are 30 or more. Enterprises in manufacturing and construction sector have employees of more than 30 work forces since it is mandatory to have this number to grow to medium enterprise, while many of the firms in other sectors such as service trade and urban farming have less than 30 workers.

The next section of the questionnaire measures the strategic process followed by small ventures, in which different authors use different item and scales. For this research, a 13-item questionnaire developed by Covin et al, (2006) which can be categorized along three dimensions, strategic decision-making participativeness, strategy formation mode, and strategic learning from failure have been adopted.

Many researchers have suggested different approach-

es for measuring the firm growth. Compared to financial measures, taking growth as an indicator of performance is more accurate (Wiklund & Shepherd, 2005). Accordingly, the owners of firms may use various criteria including the number of workers and firm's expansion capacity in judging organizational growth (Sophia & Owuor, 2015). On the other hand, sales growth has been used as a measure of a firm's growth. For instance, firms with better practices tend to sell more and grow larger that leads to hiring more employees (McKenzie & Woodruff, 2017). SMEs firm growth is measured using growth in sales, growth in employment, new product/service introduction, and entering a new market (Omar, et al., 2014). As a result, the subjective measure of performance may provide better and complete data than the financial one (Covin & Slevin, 1989). For this study, therefore, we tend to measure the performance of ventures subjectively by responses to four non-financial performance indicators, which are assessed using a seven-point Likert scale ranging from "much worse" to "much better". These items include profitability growth, sales growth, resource growth, and employee growth.

The last part is the environmental scanning, on which its items were adopted from Barringer, and Bluedorn (1999), which includes two dimensions; the internal and the external environment. It is measured on a seven-point Likert scale ranges from "never" to "frequently".

## Results and Discussion

### Firms Strategies and Growth in Terms of Capital and Employment

Most of the small firms failed at the early stage in Ethiopia as well as in Africa. Among firms that have grown a majority of them are concentrated in cities. As we see in Figure 2a, the largest number of firms that have grown are in Oromia, followed by Addis Ababa, which is a single city. This reveals that firms established in the capital town and larger cities have more advantages to grow than firms established in regional states. Regarding the sectors in which firms are involved, the majority of the manufacturing ventures have grown, followed by service and construction. On the other hand, the number of firms that grow to emerging medium-sized enterprises is increasing throughout the year.

As we see Figure 2b the number of different sectors have not indicated much variation except the urban farming sector, which is very low. However, when we see the variation between the sectors in cities and towns the involvement is dominated by the manufacturing and construction sector. The figure below takes the firms in Addis Ababa to show this variation. Figure 3a specifically shows the firms that have grown to medium enterprise in Addis Ababa. Throughout



all the years, the number of manufacturing industries more than all other sectors followed by the construction sector. In terms of employment creation construction sector overweigh the other sectors (Figure 3b). Regarding the capital level of firms, the capital recorded by manufacturing is higher than the others (Figure 3c).

Regarding growth measures, different countries have developed different criteria to transit enterprises form one

level to the next level. In Ethiopia, there are three stages of growth, which are start-up, growth and maturity stage. These stages are applied for both micro and small scale enterprises and for each stage the Federal Micro and Small Enterprises Development Agency (FeMSEDA) developed different criteria's. For our case, we have summarized growth criteria to grow to start-up medium enterprises as follows. The permanent job opportunity created by the en-

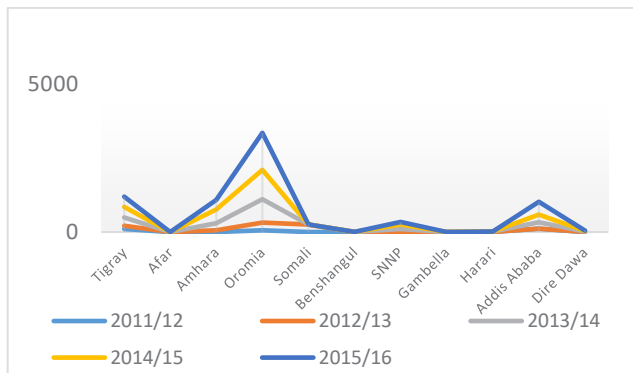


Figure 2a. Number of Enterprises Grown to Start Up Medium Level

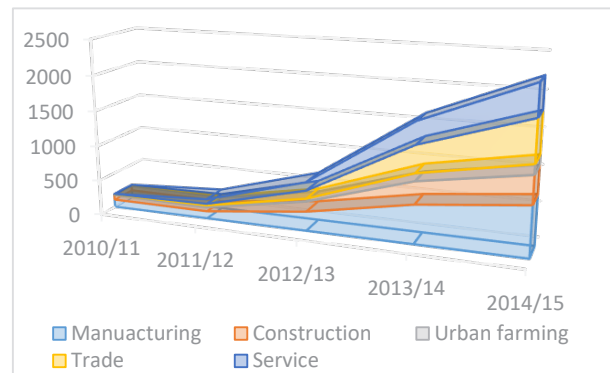


Figure 2b. Enterprises Grown in Terms of Sector

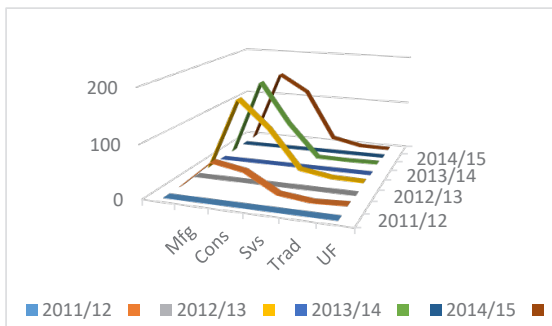


Figure 3a. Firms Grown to Medium Enterprise

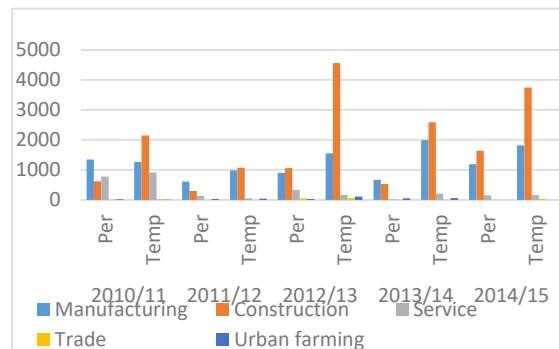


Figure 3b. Small Firms Employment Creation

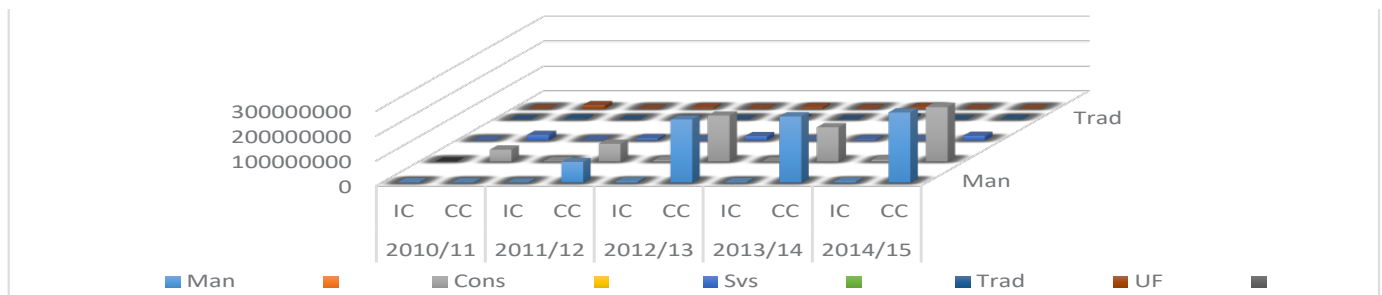


Figure 3c. Growth in Capital in the Last 5 Years



terprise must exceed 30 including the founding members, while temporary job opportunity should lie between 20 and 30 employees. Regarding the enterprise's sector, the manufacturing industry is the highest of others. Trade, service, and construction sectors also play a large role. More specifically, the manufacturing sector alone accounts for approximately half of the entire sector. This result reveals that the manufacturing sector is more successful than the other sectors in the larger cities. Manufacturing and construction have been given more attention since they support the economy more than the other sectors by creating more employment opportunity and generating more revenue. That is why the government is emphasizing and encouraging the owners of firms that have grown to emerging medium enterprises to join these two sectors.

### Strategic Process Practices

Even though the firms that have grown to medium-sized enterprises are following a good strategy comparatively, the strategies currently applied is not adequate for further growth. For example, an employee's participation in decision-making is insufficient. That is, the strategic decision-making participativeness, which helps to generate new ideas and products are not sufficiently practiced. Similarly, the mode of strategy formation and strategically learning from failure are moderately practiced among these firms.

Table 1 shows the descriptive statistics result. The highest correlation is between ventures growth and strategic decision making and between ventures growth and strategy formation mode that is (.777, 000) and (.730, 000) respectively.

Even though the current strategic process practices were poor, there are small firms who used strategy formation in planning their work activities and there are owner-managers who encourage their workers to take part in the planning process. Small firm owner-managers also started to take lessons from their failure and include improvements in the next planning process. These strategic processes highly contribute to a small firm in achieving their firm's missions and goals. Therefore, the practice of a strategic process contributes to survival and the growth of small firms since it helps to meet the stated objectives.

The mean of strategic decision-making participativeness is 3.4333, while its standard deviation is 1.3547 that is the level of worker participation in decision-making is moderately low. Its deviation is also the lowest compared to other dimensions, which shows that approximately all firms are practicing strategic decision-making participativeness less moderately. The owner/manager of the small firms were making both strategic and operational decisions. This

is one drawback of these firms, which hinders them from generating a substantial profit and innovating new products and ideas. To some extent information and power were shared in making decisions, that is comparatively these grown enterprises strategies in decision-making participation is better. That does not mean the level of employee participativeness in decisions is adequate, because the leaders take a lion share in decision making related to developing new product, introducing a new product and looking for a new market. The participation of organization members in decision-making helps in generating new product idea and market, but the actual practice is not adequate to win the next competition.

The mean of strategy formation mode is 3.3952 and its standard deviation is 1.4414, which was moderately low. This means that the activities performed by the firms were not sufficiently following the strategic and operational plan. These firms' strategies depend on trial and error. There is no planned business unit strategy that leads to competitive action. In practice, only a few firms led by plan and developed a strategy, specifically written plan and strategy. While planning is important in achieving the stated objectives, these firms are not taking benefits. Large corporations have strategic and operational plans for each specific unit of the organization, while these emerging medium enterprises lack specific plans for each department. Even though emergent strategies are bases for firms to be flexible and meet with the changing situation, the absence of this planning is one challenge that hinders the firms to transit to the next level and competing against large and matured medium enterprises. Finally, these firms tend to try without detail study and plan. Most of these firms focus on the operational issue rather than strategic. They lack the strategic mission, goals, and plans. This is because of a lack of knowledge of strategy formation and formal planning.

The mean of strategic learning from failure is 3.0381 and its standard deviation is the highest among the dimensions of a firm's strategic process, which is 1.6481. This indicates that firm owners/managers are moderately learning from their failure. The highest standard deviation shows the highest variation of response among owners/managers. The strategies that did not work and why they are not working is moderately identified. Even though strategic learning from failure is moderate, there are firms who failed and came back again by improving their mistakes. These firms are now transited to an emerging medium enterprise level by overcoming the strategic mistakes. Therefore, the firm's strategic learning from failure is crucial for the further growth of enterprises since they learn one-step from the failure they faced. However, the problem here is learning from failure has been vested only on owners/managers of

Table 1.  
Descriptive Statistics result

Variable	Mean	St. Dev.	1	2	3	4	5	6	7	8	9	10
Growth	4.1238	1.79950	1									
Age	.4048	.49202	.176**	1								
Size	.3857	.48793	-.153**	.024	1							
Gender	.3238	.46905	-.025	.010	.142**	1						
Education	.3905	.48902	.021	.076	-.093	-.074	1					
SDP	3.4333	1.34408	.759**	.117*	-.147**	-.064	-.069	1				
SFM	3.3952	1.44135	.704***	.158**	-.089	-.056	-.118	.692***	1			
SLF	3.0381	1.64810	.610***	.028	-.102	-.059	.000	.684***	.558***	1		
ES	3.4429	1.41051	.813***	.065	-.166**	-.037	.012	.628***	.554***	.571***	1	
O-CEO	.8476	.39810	.107	.072	-.115*	.009	.135*	.106	.014	.133*	.155**	1

\*\*\* $p < 0.01$  \*\* $p < 0.05$  \* $p < 0.1$

Source: SPSS Output 2017

small firms in Ethiopia.

### Small Firm's Growth

The result from the above table indicates that a mean of 4.1238 indicates that the growth of the firms was moderate on average. Despite the fact that the selected ventures were those grown to emerging medium enterprises, they rate their performance as moderate. Specifically, there is profitability growth, but it is less when we compared it with other growth measures, while employment growth, sales growth, and resource growth are good. These firms have grown to the medium-sized enterprise because of their growth in terms of capital and employment level. These capital and employment levels are recorded when they are in a small enterprise. Therefore, their performance is better compared to small firms but not against medium-sized and large enterprises.

The majority of the ventures that have grown to emerging medium enterprises were the ventures led by men comparative to the female counterparts females. The mean value of firm age is .4048 with a standard deviation of .49202. The number of younger ventures that transitioned to emerging medium enterprises are of the older ventures. The other item used to determine the growth of the ventures is the size of the firm, which is measured by the size of both permanent and temporary employees. Its mean value and a standard deviation are .3857 and .48793 respectively. This figure reveals that the number of workers for most of the enterprises were over 30 workers. This happened because of the large number of respondents from the manufacturing and construction sector that contained many enterprises that grew to emerging medium enterprises. The mean of an educational level is .3952 that is most firm owner/managers have not graduated from a college or university. The educational level of the firms indicates that less than half of owners/managers have graduated from a college or university. In addition, the mean of environmental scanning and owner CEO is 3.4429 and .8286 respectively. That is, approximately closer to 90% of the enterprises are run by their founders, not hired employed managers.

### The Influence of Strategy on Venture Growth

Diagnostic tests for regression analysis were undertaken. First, the values of tolerance were above 0.01, while the VIF was less than 10. Therefore, multicollinearity is not a concern in this test. When the residuals are not evenly scattered around the line, it indicates the presence of heteroscedasticity. In this case, the test result indicates that the residuals are evenly distributed. Therefore, there is no evidence

for the presence of heteroscedasticity.

It increases the predictor R square from 67.7% to 81.9% when the moderator variables environmental scanning and owner-CEO were added. This value shows that participativeness in the strategic decision, strategy formation mode, and strategically learning from the mistake will explain the growth of venture 67.7%, while it explains 81.9% when the moderator's, firm founder and educational level is added. The reduction of standard error shows that the introduction of moderators improves the relationship between the firm's strategy and venture growth. We also see that the independent variables significantly influence the firm's growth at a 99% confidence level in model 1 and 3, and at 95% in model 4.

Table 2 reveals that, in the first model, among the control variables age of the firm and firm size significantly influences the venture's growth, but they have no significant influence after the moderators were added. The coefficient value of the variable firm size -.650 reveals the firms with a higher number of employees grow more than their counterparts. After the first model, among the control variables, only firm age significantly influenced the venture's growth. That means, firms that were established recently have grown more than that of firms established earlier. One might expect that firm size can significantly influence ventures growth, but we find that the relationship is insignificant except in the first model. Even if the educational level is an important factor in strategy formation, planning, and practicing participative decision making, we did not find a significant influence of educational level on the firm's performance. We observed that so many enterprises, which are led by managers that did not graduated from any educational institutions, which were successful.

The second model reveals that among the independent variables participativeness in strategic decision-making and strategy formation mode has a significantly positive influence on the venture's growth at the 0.01 significance level and strategic learning from failure significantly influence ventures growth at 1% significance level. After the moderators were added in the third model, both environmental scanning and owner-CEO influences the venture's growth. Strategic decision-making participativeness is the variable that influences ventures growth higher than the other variables ( $\beta = .543, 000$ ). From this, we understand that the more firm members participated in strategic decision making, the more the venture's grew. Strategy formation mode also has a significantly positive affect on the venture's growth ( $\beta = .453, 000$ ). The more the firms use plan and forming different strategies the more the growth of the venture. Similarly, strategic learning from failure has a significantly positive influence on the venture's growth ( $\beta = .241, p < 0.000$ ). This

Table 2: Regression analysis result

Model	Variables	Independent variables		
		SDP	SFM	SLF
M1	Age	.658**(2.642)	.658***(2.642)	.658***(2.642)
	Size	-.579*(-2.282)	-.579***(-2.282)	-.579***(-2.282)
	Gender	-.020(-.075)	-.020(-.075)	-.020(-.075)
	Education	-.028(-.112)	-.028(-.112)	-.028(-.112)
	Adj. R2 (F-value)	.037 (3.014**)	.037(3.014**)	.037(3.014**)
M2	Age	.306*(1.845)	.218(1.206)	.588***(2.970)
	Size	-.160(-.947)	-.325*(-1.780)	-.365***(-1.803)
	Gender	.128(.733)	.126(.665)	.088(.420)
	Education	.239(1.432)	.343*(1.882)	.006(.031)
	Independent Variable	1.004*** (16.338)	.874*** (13.986)	.651*** (10.987)
	Adj. R2 (F-value)	.581(58.93***)	.506(43.824***)	.392(27.963***)
M3	Age	.334**(2.703)	.278**(2.179)	.469*** (3.364)
	Size	-.025(-.195)	-.079(-.606)	-.099(-.684)
	Gender	.096(.742)	.091(.685)	.064(.437)
	Education	.154(1.221)	.190(1.468)	.029(.203)
	Independent Variable	.543*** (9.327)	.453*** (8.581)	.241*** (4.779)
	ES	.612*** (11.861)	.543*** (13.378)	.687*** (13.581)
	O-CEO	-.163(-1.051)	-.033(-.207)	-.189(-1.074)
	Adj. R2 (F-value)	.767(99.45***)	.756(93.523***)	.701(70.968***)
M4	Age	.348**(2.907)	.265**(2.096)	.505*** (3.662)
	Size	-.038(-.304)	-.079(-.617)	-.136(-.954)
	Gender	.198(1.537)	.153(1.145)	.090(.622)
	Education	.151(1.237)	.163(1.276)	.022(.161)
	Independent Variable	1.122*** (6.286)	.842*** (5.492)	.788*** (4.037)
	ES	1.158*** (9.276)	1.026*** (9.728)	1.093*** (9.608)
	O-CEO	-.247(-.621)	.247(.529)	.176(.513)
	SDP_ES	.153*** (3.958)		
	SDP_O-CEO	.034(.318)		
	SFM_ES		.088*** (2.745)	
	SFM_O-CEO		-.054(-.443)	
	SLF_ES			.095** (2.293)
	SLF_O-CEO			-.159** (-1.206)
	Adj. R2 (F-value)	.782(84.33***)	.764(76.159***)	.710(57.876***)

\*\*\* $p < 0.01$  \*\* $p < 0.05$  \* $p < 0.1$  Source: SPSS Output 2017



means the firms that learn from their mistakes and failure will grow more.

Firms want to survive in the market and grow by increasing their sales growth, market share, and generating sufficient revenue. This happens by satisfying customers and meeting the expected objectives by using appropriate planning, which is participating and learning from failures. More generally, the strategic processes used by firms help in improving market share and sales growth by creating wealth.

Firms that practice appropriate strategy perform better than that of their counterparts. Strategic decision-making participativeness moderately and directly affect the growth of the firms, that means as employees are participating in organizational decision making, the firm's growth will be increased. In this situation, the skill and capacity of more peoples are combined to achieve a better outcome. Different workers may generate different ideas that may help the organization to develop new products, new processes and to attract new customers. The contribution of this effort by all workers of a given firm makes a firm perform and grow more. Practicing autocratic processes in strategic decision making hinders the venture's growth in terms of sales, employee, and share of the market. The strategic decisions to be made will be better when there is participation from workers by reaching consensus. The idea generated and discussed by all the group members contributes to the effectiveness of the strategic decision-making process than that of ideas generated by a leader's single mind.

Firms use either formal planned strategy for the action they can accomplish or emergent strategy to respond to the changing environments. The finding of strategy formation mode with growth is not consistent with the findings of Covin et al., (2006). Planning is important for any activities performed to achieve a better outcome. The firms that plan their activities can perform better since planning simplifies the procedure followed and increases effectiveness and efficiency. Firms that are using a formal planned strategy were more successful than their counterparts. When strategies are successfully formulated, firms successfully accomplish their tasks. They know how the tasks will be done. Therefore, these firms are successful in achieving their target. The achievement of the target leads to the survival and growth of ventures.

There is no successfulness at one trial. In relation to the strategic learning from failure, enterprises that fail to learn from their failure have faced difficulty in identifying the alternative way and better opportunities that exist. That is why firms should learn from mistakes done and try to take lessons from their mistakes by identifying the causes of failures. Decision-making will also be improved because of

the experience gained from failure. Therefore, the firms that are reformulating their strategy by including lessons learned from failure were more successful and grow more than their counterparts. As a result, enterprises grow more when they learn from their previous mistakes by identifying the new profitable line and/or business.

### **The Moderating Role of Environmental Scanning and Owner-CEO**

Environmental scanning positively and significantly influences venture growth ( $\beta = .612, 000$ ), (.543, 000) and (.687, 000) respectively when participativeness in the strategic decision, strategy formation mode, and strategically learning from mistakes are used as independent variables, respectively. During scanning of the business environment, we look for both opportunities and threats. The identification of both opportunities and threats and understanding the environment helps to develop a successful strategy. Also, it considers the resources of the firm that support the growth of ventures. When trends and events in the environment are understood, the strategic processes including participativeness in strategic decision-making, strategy formation mode, and strategically learning from mistakes will be affected which in turn influences the growth of ventures. As firms scan their environment, they tend to exploit and practice suitable strategy that contribute to the growth of the ventures.

The firms that scan their environment can identify how the strategic decision participativeness is practiced among successful and larger businesses. The participativeness in decision-making is more successful when both the resources of the firms and the external environment were scanned successfully. Strategies were properly formulated and planned when information about the existing resources and the external environment is known because the planning process directly includes the existing organizational resources. Regarding the external environment, the market condition is known through scanning. The political, demographic, technological, economic and other situations were also considered in the planning process.

They also, compare their strategic and operational plans against their competitor by gathering information about the market from suppliers and customers. The strategy planned in consideration of these environments will influence the venture's growth more. Therefore, aligning the strategy formation process with environmental scanning will make the firms more successful. When firms analyze both their external and internal environment, they learn why they will fail from competitors, suppliers, consumers, and their actual strategy. Similarly, when planning is reformulated in con-

sideration of the failures and changes in the environment, the firm's growth will be more successful. The process of learning from failures should be allied with environmental scanning in order to make the firm successful.

As the environment is frequently scanned participation in decision-making influences the growth of small ventures more. Similarly, when the use of formal planning is in the frequently scanned environment, the growth of small ventures is better. Finally, firms that are learning from their failure by frequently scanning the environment grow more than their counterparts.

Surprisingly, we found that the owner CEO leadership will not significantly influence the venture's growth, except when it is combined with strategic learning from failure. This indicates, when firms are led by the owner themselves rather than hired managers, they tend to learn more from their failures. Therefore, the growth of ventures is better among firms that were led by owners themselves and who learn from their mistakes. This is not consistent with the finding of Abebe & Alvarado (2013) that indicates the existence of significant difference among firms led by founders and firms led by no-founders, which is firms that are led by founders perform worse than their counterparts. But, it's consistent with the finding of Zhang (2010) that says founder's turnover will significantly affect the performance of the firm negatively. This is because the owners consider this their enterprise; they are not looking outside for employment at an increased salary.

### Conclusion and Implications

The study of a firm's strategic and ventures performance is crucial in entrepreneurship research. In this research, the firm's founder and the environmental scanning used as the moderators. Therefore, our study contributed to the literature by using these additional variables to the study. Besides its contribution to the existing literature, the study will help the government in improving and strengthen small ventures to use different strategies that contribute to their growth. Only a few of the ventures were transited to the emerging medium enterprises in Ethiopia. The growth level of emerging medium enterprises is moderate. The practice of strategic decision-making participativeness and strategy formation mode is also not attractive and adequate to grow and compete with larger enterprises that follow appropriate strategy. Regarding the management, many of the enterprises are managed by the founders themselves who have not graduated from any educational institutions. The firms that practice better in decision making participativeness, forming plans and strategies, and learn from their previous mistakes and failures, grows more than the firms who

poorly practice these strategic processes. Firms that are in a suitable environment and led by the owners grew more than their counterparts. Finally, the younger ventures with new idea and effort as well as the ventures with a larger number of workers grew more than the firms who were small and have a smaller number of employees.

### Practical Implications

Among the major problems observed in government support to small firms, its policies and practices are not equivalent and the strategy designed is not appropriately undertaken. It is widely recommended that small enterprises use a strategic process to grow their ventures sufficiently. Besides, there are other variables that facilitate the better practice of the strategic process which makes more to influence the venture's growth. The level of influence varies differently for different ventures that are operated in different situations. The strategies developed and followed is not adequate to compete against larger enterprises, therefore the owner/managers of these firms should adequately practice participative decision-making, form an appropriate and sufficient plan of strategies, and learn from their mistakes to survive and grow. The strategy also successfully influences venture growth when the firm is run by owner/founder, thus owners/managers should lead their business themselves by giving full consideration to be successful.

### Future Research

For this research, the environmental scanning measurement, both the internal and external environment was measured in aggregate, but it is helpful if the contribution of internal and external environments were differentiated. Therefore, future researchers should measure and differentiate the extent of contribution separately for internal and external environments. Finally, we recommend for further researchers to compare failed firms against successful firms and differentiate the causes for the insufficient practice of the strategic process.

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