

TO GROW OR NOT TO GROW: THE EFFECTS OF STRATEGY-MAKING PROCESS ON SMALL FIRM PERFORMANCE

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ABSTRACT

Growing small firms is critical to any economy. The factors leading to growth have been the subject of many studies, and this paper continues in that tradition. It investigates how one factor which has not received much attention in this regard, namely the strategy-making processes that a small firm uses, may influence its ability to grow. To this end this paper describes the results of an empirical study conducted with 454 small firms. Several important findings emerge from this study. Most importantly, several strategy-making processes, in particular participative strategy-making, have the ability to influence growth. Adaptive and intrapreneurial strategy-making also influence growth through their impact on entrepreneurial orientation, which has a significant impact on growth, especially in young firms.

INTRODUCTION

The reasons behind small firm growth are often the subject of research, government policy and media attention. The importance of identifying those factors that may provide small firms with a competitive advantage cannot be understated. Small firms are often faced with restrictions such as skill shortages, problems attracting staff, funding issues and continuous changes in the supply chain and industry, and therefore need to utilise all potential factors that may help to overcome these restrictions. The strategic management literature is replete with examples of such strategic, managerial, industry and process elements that may lead to firm growth (e.g Beaver & Prince, 2004; Glancey, 1998; Gray & Allan, 2002; Hart, 1992). One such element is the strategy-making process(es) that a firm uses and this paper sets out to investigate the influence on performance of these processes in small firms.

Several strategy-making processes that firms use have been identified in the literature, including rational, intrapreneurial, participative, simplistic and adaptive processes (Ansoff, 1987; Dess, et al. 1997; Hart, 1992; Mintzberg, 1973; Nutt, 1984). While research supports the importance of rational strategy-making processes in all firms, including small firms (Hart, 1991; Mintzberg, 1973; Robinson & Pearce, 1983), its prevalence in small firms with fewer than 100 employees has been questioned (Verreynne, 2006). This may be the result of the issues raised earlier, including resource, time and other restrictions which limit their ability to engage in resource and time intensive rational approaches.

This paper argues that even though rational approaches may not be widespread in small firms, it does not mean that these firms do not make strategy, but rather that small firms use approaches that are more suitable to their unique circumstances, such as intrapreneurial, participative, simplistic and adaptive processes (Verreynne, 2006). Furthermore, it has been shown that the nature or impact of strategy-making processes may change depending on a number of contextual factors such as

organisational structure (Chaston, 1997), environmental uncertainty (Covin & Slevin, 1989; Hart, 1991) and the industry life cycle stage (Lumpkin & Dess, 2001) of a firm. In this paper, three such factors, namely entrepreneurial orientation (Covin, Green & Slevin, 2006), age (Gupta & Chin, 1993) and size (Verreynne & Meyer, 2007a) are investigated. This paper therefore aims to investigate the relationship between strategy-making processes and growth. It then compares the nature of this relationship for firms of different sizes, age and entrepreneurial orientations to provide insight into which practices are most likely to have a positive effect on growth.

LITERATURE AND HYPOTHESES

Why do some firms grow while others do not? This question has been the subject of many studies (e.g. Chan et al., 2006; Delmar, Davidsson, & Gartner, 2003; Sadler-Smith et al., 2003). Researchers have identified a great number of factors which have the potential to lead to firm growth, or, alternatively, which may hinder growth when absent. These factors include environmental factors, such as industry concentration; strategy factors such as capital investment, firm advertising, market share and R&D; and firm issues such as capacity (Capon, Farley and Hoenig, 1990).

One such factor which has not received much attention in this context is the strategy-making processes that firms use. Some research in this regard has been carried out in large firms (Antoncic, 2006; Dess, Lumpkin & Covin, 1997), however, in the area where it may be of greatest importance, namely small firms and particularly young small firms (new ventures); the research that this paper reports on is one of only a few studies. In this review, the potential of strategy-making processes for enhancing growth prospects is investigated. Entrepreneurial orientation, a factor which typically nurtures firm growth, is included because of its potential to mediate the relationship between strategy-making processes and firm growth. Last, these relationships are compared in younger/older and smaller/larger firms.

Strategy-making processes

The impact of strategy-making processes on firm performance has been widely investigated in large firms (Dess et al., 1997; Hart, 1991; Lumpkin & Dess, 1995) and, to a lesser extent, also in small firms (Covin & Slevin, 1991; Robinson & Pearce, 1983; Verreynne, 2006). What is absent from this discourse is the potential influence of these processes on growth in small firms. In order to investigate this topic, the taxonomy of strategy-making processes in small firms developed by Verreynne (2006) and Verreynne and Meyer (2007a) is used to explore the growth outcomes of adaptive, intrapreneurial, participative and simplistic strategy-making.

It has been suggested that *adaptive* strategy-making is a rare and inimitable process that will lead to competitive advantage (Barney, 1991). This is supported by Hart (1991), who finds in a study of 916 firms of all sizes and from all industry sectors that the transactive mode of strategy-making, in which “strategy is crafted based upon an ongoing dialogue with key stakeholders” (Hart, 1992, p. 338), is associated with growth, albeit not to the same extent as more rational processes. Adaptive strategy-making is likely to provide small firms with an advantage not only because the rigidity of some alternative approaches may lead to long term distress (Alpkan, et al., 2007), but also because it allows firms to be responsive to the needs of supply chain partners and customers. The question is, “Will this advantage translate into growth?”. Inevitably it must be argued that flexibility and responsiveness will allow small firms to not only identify opportunities more effectively, but also respond to them in a timelier manner, thereby growing either their product range and/or market.

Entrepreneurial and *intrapreneurial processes* are generally considered as important for growth and profitability in all firms (Antoncic & Hisrich, 2001; Covin & Slevin, 1991; Miller & Toulouse, 1986; Peters & Waterman, 1982). Furthermore, by using the ideas of intrapreneurial employees the small firm can differentiate itself, thereby developing competitive advantage and growing. In particular, growth orientated small firms may benefit from the sharing of innovation through intrapreneurship thereby increasing the magnitude and/or pace of growth.

In contrast, in terms of *participative strategy-making*, it can be argued that it is unlikely that this process will lead to growth because of the emergent nature of the strategy that develops from this process. However, it is argued that participative strategy-making will strengthen firm performance,

improving decision quality and therefore organisational effectiveness (Parnell & Crandall, 2001). This is supported by Frese, van Gelderen and Ombach (2000) and Wooldridge and Floyd (1990) who find that participation in strategy-making is associated with improved firm performance. In agreement, this paper argues that firms that involve their employees in their strategy-making processes are likely to either have buy-in by employees into the process, or better information and decision-making, and will therefore improve performance.

A similar relationship between *simplistic* strategy-making and firm performance is supported by the literature. Lumpkin and Dess (2006) find a moderating role for simplistic strategy-making on the cost-leadership – firm performance relationship. Typically it is understood that more formal or rational processes such as simplistic strategy-making will improve firm performance. The preceding arguments, lead to the formulation of the following hypotheses:

- H1 Adaptive or intrapreneurial strategy-making will have a positive effect on firm growth
 H2 Participative or simplistic strategy-making will have a positive effect on firm performance, but not on firm growth

Entrepreneurial orientation

Although the arguments espoused earlier clearly indicate the likelihood that strategy-making processes such as those already stated may contribute to the growth of small firms, it is possible that the presence of other organisational factors may strengthen this relationship. One such factor that emerges strongly from the literature is the entrepreneurial nature or orientation of a firm. Entrepreneurial firms are defined as those firms with greater entrepreneurial orientation or intensity and are characterised by innovativeness, pro-activeness, risk-taking, competitive aggressiveness and autonomy (Covin & Slevin, 1989; Lumpkin & Dess, 1996). An entrepreneurial nature is generally considered as desirable for a firm. Advantages of an entrepreneurial nature, such as a positive impact on small firm performance (Wiklund, 1999), have been established in the literature. The link between entrepreneurial orientation and growth has also been well established in the literature (Covin, Green & Slevin, 2006).

The entrepreneurial nature of a firm may also influence the approach to strategy-making that a firm employs. Matthews and Scott (1995) study the role of the entrepreneurial nature of a small firm in its planning sophistication. Using a similar definition of an entrepreneurial firm as this paper, they argue that such entrepreneurial firms would use more sophisticated approaches to strategy-making because entrepreneurs are not only more motivated, but also perceive that they have greater control over the environment. This is supported by research by Gibbons and O'Connor (2005) which finds that entrepreneurial firms use more formal processes, while conservative firms tend to adopt incremental or emergent processes.

Relationships between various strategy-making processes and an entrepreneurial orientation (EO) have been espoused by several researchers (e.g. Covin et al. 2006). Two processes in particular, namely adaptive and intrapreneurial strategy-making, seem to strengthen the incidence of an entrepreneurial orientation (Verreynne & Meyer, 2007b). For instance, Barringer and Bluedorn (1999), in a study of 169 manufacturing firms, find support for their hypothesis that a positive relationship exists between planning flexibility, a dimension of adaptiveness, and EO intensity. Similarly, intrapreneurial employees are more likely to contribute to strategy-making in entrepreneurial firms. In both cases, the entrepreneurial outcomes of strategy-making will further strengthen the growth outcomes of the firm, therefore it is proposed that:

- H3 Entrepreneurial orientation will have a positive effect on firm growth
 H3a Entrepreneurial orientation will mediate the relationships in H1

Firm size and age

Firm size has also been found to influence strategy-making and growth. The general consensus is that larger firms are more likely to use rational processes while smaller firms are more likely to use adaptive or entrepreneurial processes or no strategy-making at all. It is even possible that more pronounced size differences may be a moderating factor in studies of firm performance in small firms (Covin & Covin, 1990). Indeed, according to Chen and Hambrick (1995), size is one of the most

important variables in firm level studies. In general it is understood that more deliberate processes are more successful in large firms, while small firms are likely to achieve performance differences through their use of more emergent processes (Verreynne & Meyer, 2007a). In general strategy-making processes are more meaningful for performance in large firms which have the resources to invest in strategy-making (Hart & Banbury, 1994). It is hypothesized that a similar situation will exist in terms of growth and therefore, size is viewed as a moderator of the relationship between strategy-making processes and growth.

In terms of firm age, it is once again argued that it will moderate the relationship between strategy-making processes and growth. Research has found that firm actions may vary at different stages of its existence. Greiner (1972), for example, suggests that this may be a result of institutionalisation of behaviours and attitudes, and that few practices can be maintained over a long period of time. Mintzberg (1979) proposes that older firms will exhibit more formal behaviours. More specifically, Cooper (1979) describes the strategy-making processes of small firms in the earlier and later growth stages. He explains that in the earlier growth stages methods are informal, with few policies and direct control. Furthermore, assumptions underlying decisions are sometimes faulty because they are based on little information about the situation. Young firms are typically viewed as entrepreneurial (Miller & Friesen, 1984); differentiators and innovators (Anderson & Zeithaml, 1984); and that pro-activity will therefore improve growth and performance – indicating the importance of intrapreneurial strategy-making (Lumpkin & Dess, 2001). These young firms also will be seeking assistance with various aspects of the strategy-making process, thereby including the views of external stakeholders such as financiers, accountants, lawyers and other professionals in decision-making, but also seeking views from other consultants and casual contacts in decisions (Massey, 2005). This points to the importance of adaptive strategy-making, but it is also entirely possible that some firms may try to keep their ideas secret at this stage, thereby only including internal stakeholders during the decision-making process, using a participative process (Chen & Hambrick, 1995). Miller and Friesen (1984) note that older firms may start to become more rational in their strategy-making, using analysis and integration of thinking more often. In the later growth stages, delegation of some duties by the founder occur and his/her job becomes more strategic in nature. More formal processes are introduced in communication, policies and control. Even though the growth may free the founder up to be more involved in planning, he/she may also “lose touch” which may hamper environmental analysis and strategy implementation (Cooper, 1979). McGahan, Argyres and Baum (2004) support this by explaining that more scalable, in this case simplistic, business approaches become the dominant model in older firms, most likely because it leads to process efficiencies. It is therefore argued that:

H4 The relationship between intrapreneurial, adaptive, participative or simplistic strategy-making and growth will be moderated by:

H4a Firm size

H4b Firm age

In that growth will be strengthened through the use of intrapreneurial, adaptive and participative processes in young/small firms, and through the use of simplistic processes in older/larger firms.

RESEARCH METHOD

These hypotheses were tested in an empirical study of 454 small New Zealand firms with between 5 and 99 employees, using a questionnaire containing scales which have been developed and tested in previous studies to test the concepts set out in the hypotheses. The questionnaire was mailed to 2 000 small firms in New Zealand, chosen randomly from the Kompass database. A cross-sectional design was employed targeting the owner/managers of these firms. The questionnaire was mailed to the owner/manager of each small firm, and a reminder was mailed one month later. A total of 477 usable questionnaires were returned, for a response rate of 23.85 per cent. Previous studies have shown that organizational processes do differ for very small firms (O'Regan & Ghobadian, 2004), so only firms with at least five full-time employees were considered in this study. In addition farming operations and foreign-owned firms were excluded, on the grounds that strategy is often externally controlled in these firms, by agricultural co-ops and overseas management, leading to a final number of 454 firms which were included in the analysis.

Measurement instrument

The dependent variables, growth and firm performance, were measured by using the financial performance scale developed by Covin and Slevin (1989) and Gupta and Govindarajan (1984), illustrated in Table 1. Respondents had to indicate the “importance” of ten financial measures to the firm, two of which related to growth, on a five point Likert scale. Thereafter they were asked to indicate their satisfaction with the firm’s performance for the same ten financial measures. The “satisfaction” scores were multiplied by the “importance” scores and aggregated in order to compute a weighted average growth index and a weighted average performance index for each firm. Weighing satisfaction with importance scores is the same method followed by Covin and Slevin (1989). The higher the aggregate score on these relative indices, the better the perceived level of firm growth and performance.

Table 1: Growth and Performance Indices

Financial Measures	Index
Sales level	Performance
Cash flow	Performance
Return on shareholder equity	Performance
Gross profit margin	Performance
Net profit from operations	Performance
Profit to sales ratio	Performance
Return on investment	Performance
Overall firm performance	Performance
Ability to fund business growth from profits	Growth
Sales growth rate	Growth

The independent variable, strategy-making mode, was measured with the Hart (1991) scale as modified by Dess et al. (1997). This scale was originally developed by Hart to test for strategy-making modes based on the two dimensions that he argued as “central to [conceptualising] and understanding strategy-making processes: (1) top management “intentionality”, and (2) [organizational] actor “autonomy”” (1991, p. 104). Dess et al. (1997) modified the scale and found that four modes resulted from their factor analysis. These modes are similar to the four modes identified earlier in this paper. Their scale consists of 25 items and is scored on a five point Likert scale, ranging from 1 “Strongly disagree” to 5 “Strongly agree”.

The other independent variable, EO, was measured by using the scale developed by Covin and Slevin (1989). This scale is based on the works of Khandwalla (1976/77) and Miller and Friesen (1982). This scale consists of nine items, three each measuring innovativeness, pro-activeness and risk-taking. There is some disagreement on how to label Covin and Slevin’s (1989) measurement scale and what type of concept it really represents because it comprises a mix of past behaviors and current attitudes (Wiklund, 1999). But at the same time it has been used extensively in empirical research and conceptualises a wide gamut of a firm’s entrepreneurial activities. This scale has been operationalized in various consequent studies (e.g. Barringer & Bluedorn, 1999; Becherer & Maurer, 1997; Naman & Slevin, 1993) and shows high levels of reliability and validity. Covin and Slevin (1989) and Miller (1983) explain that the items in this scale should be aggregated together because EO can be viewed as a “basic, uni-dimensional strategic orientation” (p. 79). Furthermore, EO has been used as a dependent variable in previous studies (Miller & Friesen, 1982; Voss, Voss & Moorman, 2005; Zahra, 1991).

Data-analysis

First, as described in Verreyne and Meyer (2007a), a *measurement model* for the four modes of strategy-making described in this paper was developed and analysed using an exploratory factor analysis, with principal axis factoring and an oblique promax rotation. The validity of each of the strategy-making modes as well as the EO scale was refined using confirmatory factor analysis. According to Byrne (2001), acceptable goodness of fit measures were produced for all these constructs with CMIN/DF<3, CFI>0.90, RMSEA<0.07. According to Hair, Anderson, Tatham & Black, (1998), reliable scales can be created for these constructs whenever the Cronbach’s alpha exceeds 0.60. Only in the case of simplistic strategy-making is this not possible because the Cronbach’s alpha is only 0.186. Summated scales were therefore constructed for all the other

constructs using the items defined in Tables 2 and 3, with growth and performance indices constructed as indicated above.

Table 2: Strategy-Making Process Scales

Participative SMP	Intrapreneurial SMP	Adaptive SMP	Simplistic SMP
Cooperation and collaboration are encouraged Work as part of a team	Most people are willing to take risks People are very dynamic and entrepreneurial	Stakeholders involved in our planning Listen to what stakeholders say	Planning is an internal process CEO places his mark on almost everything
Clear and consistent set of values People with unpopular views are heard Most people are treated equally Modus operandi is well suited to the business Long-term potential is valued more than short-term performance Conflict is often suppressed Common set of management practices Most people have input to decision-making Work roles and expectations clearly defined	Business strategy decisions by consensus Decision making at level with best data Experimentation is encouraged	Business planning is ongoing involving all Continuous adaption to market feedback	Avoid failure at all costs Top-down decision-making Clear blueprint for strategy

Table 3: Entrepreneurial Orientation Scale

Many new lines of products and services Changes in product or service lines have usually been quite dramatic Organization typically initiates actions which competitors respond to Organization is very often the first to introduce new products/services, administrative techniques, operating technologies, etc. Organization typically adopts a very competitive, “undo-the-competitors” policy Top managers have high-risk projects with chances of very high returns Top managers believe that, owing to the nature of the external environment, bold wide-ranging acts are necessary to achieve the organization’s objectives When confronted with uncertainty organization typically adopts a bold, aggressive approach in order to maximise the probability of exploiting potential opportunities Manager emphasis on research and development, technological leadership and innovation
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Pearson correlations were used to examine the initial hypotheses, but a *causal model* was required for the rigorous testing of all the hypotheses. The above goodness of fit criteria (Byrne, 2001) were used to test the adequacy of this model. Links with insignificant weights were removed and modification indices were used to suggest additional links resulting in an improved model, providing some support for the first three hypotheses. Model invariance tests were then performed for firm size and age in order to determine whether the same model weights could be used for smaller and larger firms and for younger and older firms. Chi-squared tests showed significant age differences but no significant size effect, providing only partial support for the fourth hypothesis. The above analyses were conducted using SPSS version 14 and AMOS version 6.

FINDINGS

The 454 small firms included in this study represented the manufacturing industry best (35 per cent) with lower representation for retail/wholesale (15 per cent) and construction (12 per cent). The majority of the firms were private companies (73 per cent). However, 13 per cent were owner operated, six per cent were run as partnerships and five per cent were public companies. The majority of firms (52 per cent) regarded their industry to be in the mature stage of its life cycle. However, the percentage of firms who thought their industry was in the growth phase was also high (40 per cent). Most firms (71 per cent) had a growth strategy with fifteen percent having a new product or new market strategy. Only 11 per cent gave their strategy as “maintaining the status quo”.

As shown in Table 4 there was a significant positive correlation between growth and both intrapreneurial strategy-making (ISM) and adaptive strategy-making (ASM) processes, providing some support for the first hypothesis. However, there was only partial support for the second hypothesis in that, contrary to expectation, there was no significant relationship between a simplistic strategy-making (SSM) process and performance. Also it was found that there was a significant positive correlation between participative strategy-making (PSM) and firm growth as well as the expected significant positive correlation between participative strategy-making and firm performance. Table 4 also provides some support for Hypothesis 3a in that there is a significant positive correlation between entrepreneurial orientation and growth.

Table 4: Descriptive Statistics and Correlations for Scales and Indices (p<.01)**

	Growth	Perform- ance	EO	ASM	PSM	ISM
Mean	27.41	112.81	37.30	3.48	3.91	3.38
Standard Deviation (COV)	9.03(33%)	31.83(28%)	8.76 (24%)	0.69 (20%)	0.59 (15%)	0.62 (18%)
Cronbach's Alpha	-	-	0.845	0.689	0.802	0.727
Correlations with:						
Growth	1.00	0.71**	0.21**	0.26**	0.28**	0.22*
Performance	0.71**	1.00	0.10	0.25**	0.29**	0.17**
Entrepreneurial Orientation (EO)	0.21**	0.10	1.00	0.38**	0.16**	0.31**
Adaptive SMP (ASM)	0.26**	0.25**	0.38**	1.00	0.46**	0.48**
Participative SMP (PSM)	0.28**	0.29**	0.16**	0.46**	1.00	0.52**
Intrapreneurial SMP (ISM)	0.22*	0.17**	0.31**	0.48**	0.56**	1.00

The causal model shown in Figure 1, based on the full measurement model rather than summated scales, confirms the first hypothesis in that both intrapreneurial and adaptive strategy-making have positive links with growth through their impact on entrepreneurial orientation. As expected in the second hypothesis, Figure 1 shows a direct relationship between Participative strategy-making and performance but there is also an indirect positive impact of participative strategy-making on growth, in that participative strategy-making increases the likelihood of intrapreneurial and adaptive strategy-making while producing the performance level necessary to support growth. However, contrary to expectation there is no positive link between simplistic strategy-making and performance. Instead there is a negative link between simplistic strategy-making and growth produced by the negative impact of simplistic strategy-making on entrepreneurial orientation.

Figure 1: Causal Model (RMSEA = 0.046, CMIN/DF = 1.96, CFI = .90)

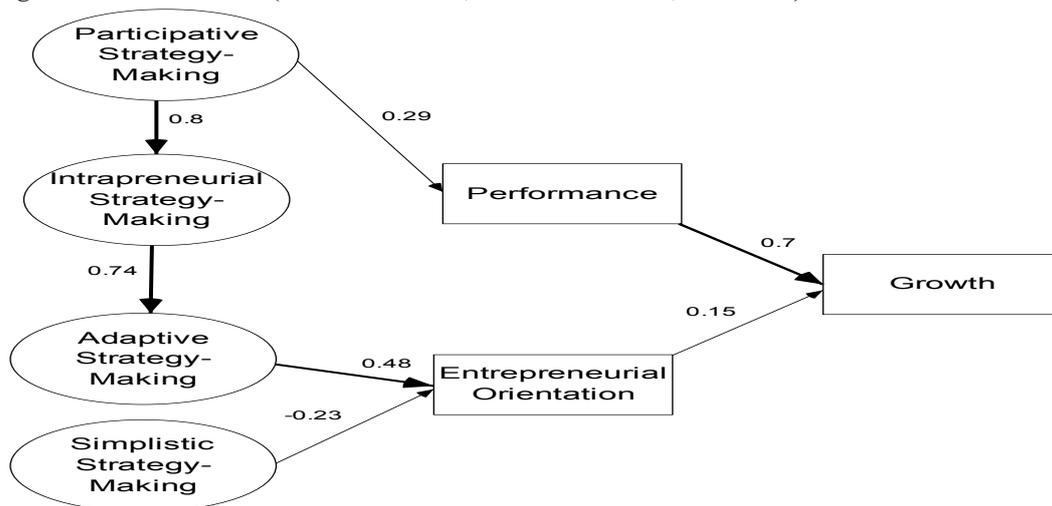


Figure 1 supports the third hypothesis in that it shows a direct link between entrepreneurial orientation and growth, and it confirms that the effect of intrapreneurial and adaptive strategy-making on growth is mediated by an entrepreneurial orientation. If intrapreneurial and adaptive SMP do not serve to nurture an entrepreneurial orientation in a firm these processes are unlikely to produce growth. However, it was found that participative strategy-making had the strongest impact on growth

with a standardized effect size of 0.246 as opposed to 0.030 for intrapreneurial strategy-making and 0.074 for adaptive strategy-making. Participative strategy-making serves to improve performance which has a direct impact on growth. In addition participative strategy-making, through its impact on intrapreneurial and adaptive strategy-making serves to develop an entrepreneurial orientation in a firm which will also tend to promote growth.

The model shown in Figure 1 explains 53 per cent of the variation in firm growth when all firms in the sample are considered. The fourth hypothesis suggests that the efficacy of the model will depend on firm size and age. The median size of the firms in this sample was 16.45 full-time equivalents (FTE's) so an invariance test was performed in order to establish whether the same model coefficients could be used for firms with at most 16.4 FTE's and for firms with more than 16.4 FTE's. The resulting chi-squared test provided no support for hypothesis 4a in that it showed that the same model weights could be used for smaller and larger firms (Chi-square =41.031, df = 33, p = .159).

An analysis on age showed that slightly more than half the firms (52 per cent) were more than two years old. The fourth hypothesis (4b) was therefore addressed by testing whether firms that were more than two years old required a different causal model to firms that were at most two years old. In this case there was a significant moderation effect (Chi-square = 58.012, df = 33, p = 0.005) with Table 5 showing that an entrepreneurial orientation was not a significant requirement for growth in older firms. However, the relationship between participative strategy-making and performance was stronger in older firms.

Table 5: Impact of the Age of a Firm on the Beta Coefficients

			At most 2 years old		More than 2 years old	
			Beta Estimate	p-value	Beta Estimate	p-value
Intrapreneurial SMP	<-	Participative SMP	.829	<.001	.768	<.001
Adaptive SMP	<-	Intrapreneurial SMP	.722	<.001	.773	<.001
EO	<-	Adaptive SMP	.442	<.001	.511	<.001
Performance	<-	Participative SMP	.170	.019	.411	<.001
EO	<-	Simplistic SMP	-.306	.007	-.215	.048
Growth	<-	EO	.208	<.001	.065	.201
Growth	<-	Performance	.708	<.001	.714	<.001

The above causal model explains a similar percentage of the variation in growth for younger firms (56 per cent) and for older firms (53 per cent). It shows that participative strategy-making has the strongest association with growth in both cases. This is particularly true for older firms with a standardized effect size of 0.313 as opposed to 0.175 for younger firms.

Therefore the structural equation modelling analysis of the data has provided support for hypotheses H1 and H3, but only partial support for hypotheses H2 and H4. In particular it was found that all four approaches to strategy-making are significantly associated with growth, with only simplistic strategy-making having a negative impact on growth. However, only participative strategy-making has a significant impact on performance. In addition it appears that an entrepreneurial orientation is important for growth in small firms, with the participative, intrapreneurial and adaptive strategy-making processes promoting growth through this medium. Interestingly, firm size did not influence any of these relationships, but firm age had an important impact. Participative strategy making has a stronger impact on growth in the case of older companies while entrepreneurial orientation has a stronger impact on growth in the case of younger companies.

DISCUSSION AND IMPLICATIONS

This paper sets out to investigate the effect of strategy-making processes on growth in small firms. With this linkage under-investigated in the literature, this research is timely, and can assist small firms to improve their strategic decision making practices. Five major findings emerge from this research, and are discussed next.

First, several strategy-making processes are able to influence growth in small firms. As hypothesised, both intrapreneurial and adaptive strategy making processes are significantly correlated with growth, although the effect was weaker than expected. This can be explained by the fact that although these processes do not have a strong direct effect on growth, they impact on growth through their hypothesized effect on entrepreneurial orientation. Unexpectedly, participative strategy-making has a strong impact on growth – a total standardised effect of 0.246. It therefore seems as if the ideas from employees and decisions made at the most appropriate level of the firm will influence growth because in small firms this process will be positive, leading to better, more considered decisions, rather than immobilisation as in large firms. This process is more important for established firms than for new firms. There is no significant relationship between a simplistic strategy-making process and performance. However, Miller (1993) hypothesized, under some circumstance simplistic strategy-making may even have a negative impact on firm performance because it does not allow for wider consultation and evaluation of alternatives.

Second, the use of more than one strategy-making process at any one time in a firm will further increase the likelihood of growth occurring. This is illustrated through the positive impact of participative strategy-making on growth, in that it increases the likelihood of intrapreneurial strategy-making which in turn affects the likelihood of adaptive strategy-making. This finding is supported by Hart and Banbury (1994) who stress that firms which rely on more than one strategy-making approach may perform better than firms which rely on only one approach.

Third, the development of an entrepreneurial nature may further strengthen the impact of strategy-making processes on small firm growth. As expected, there is a significant positive correlation between entrepreneurial orientation and growth. Furthermore, both intrapreneurial and adaptive processes have positive links with growth through their impact on entrepreneurial orientation. Therefore, as explained earlier, intrapreneurial and adaptive strategy-making will only affect growth through their ability to nurture an entrepreneurial orientation. Intrapreneurial and adaptive strategy-making are both processes that are able to cultivate ideas which may present the firm with opportunities. Should a firm that uses these processes have an entrepreneurial orientation which allows it to strengthen these processes and take advantage of the resulting opportunities, the firm should grow.

Fourth, whereas these small firms with fewer than 100 employees seem to be a homogeneous grouping in terms of size differences, the age of a firm has an impact on which factors have a greater effect on growth. An entrepreneurial orientation is important for firms younger than two years that want to grow, but not for older firms. This is an important result since, as previously explained, most researchers view an entrepreneurial orientation as universally important to firms of all ages. However, this study finds that it is only in very young firms that an entrepreneurial orientation is more likely to produce growth, probably because young firms are more entrepreneurial.

Fifth, the impact of performance on growth was not something that this study set out to investigate. However, a strong impact was found, consistent with some previous studies. Studying the relationship between growth and performance is not new to researchers. Roper (1999) for example found no predictive value of growth on future profit. Wolff and Pett (2006), however, found in a structural model of strategic factors, based on 182 small and medium sized firms, that growth has a standardised effect of 0.5 on performance. It seems logical that growth should positively impact on performance, although Wolff and Pett argue that a short term orientation or environmental conditions may reverse that influence. These authors explain that firms may choose to have a growth or a profit orientation, and that factors which explain the relationship between growth and performance include optimal size, experience curve effects and first mover advantages. The impact of performance on growth has been clearly established in this study suggesting that good performance is necessary in order to generate the funding required for further growth in small firms, regardless of their age.

A number of limitations have to be kept in mind when reading the results of this study. Specifically, since data were collected from small firms in New Zealand, the generalisability of the results to other settings has to be established. Furthermore, the cross-sectional design may be another limitation and a longitudinal study may provide some advantages. It is therefore suggested that further research be conducted on the influence of strategy-making processes on firm performance and growth, using a quantitative longitudinal study for a larger group of firms.

Several implications result from these findings. For example, engagement in any of the approaches to strategy-making except simplistic strategy-making will help small firms to grow. Furthermore, older firms that are committed to growth will find participative strategy-making processes particularly beneficial, whereas younger firms should concentrate on creating an entrepreneurial nature if they want growth.

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