RELATING SMALL BUSINESS GROWTH WITH SUCCESS - SOME FINDINGS FROM THE 2008 WESTERN AUSTRALIAN SMALL BUSINESS BENCHMARKS SURVEY

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ABSTRACT

This aim of this paper is to examine the relationship between the small business owner’s intent to grow their business and their self-perception of success. A considerable body of research has looked at business growth as a measure of small business success but this approach ignores the possibility that small business owners consider themselves as successful despite not wishing to grow their firm. Many small business operators choose not to pursue growth opportunities for fear of losing control and losing the firm’s “small business” atmosphere. Some business owners do not expand their business due to lifestyle and family choices. It is possible there are business owners that consider themselves successful despite not seeking the expansion of their firm. Conversely, business owners intent on achieving business growth might consider themselves as unsuccessful if the growth is slower than expected. To examine the relationship between business growth and self-perception of success, a survey sample of small business owners (n=340) was analysed according to their intention to expand their firm in terms of number of employees. The relationship between the owner’s intent to achieve business growth and lifestyle was also examined. The findings of the data analyses provide some evidence that there is a positive relationship between the growth intentions of small business owners and their self-perception of success but a negative relationship between business growth intention and lifestyle. The results also have implications for a number of research and policy settings.

INTRODUCTION

This paper examines the relationship between the small business owner’s intention to grow their business and their self perception of success. While there has been a considerable body of research on the growth of the small business and success (Baum, Locke & Smith 2001; Cliff 1998, Davidsson, Steffens & Fitzsimmons 2009; Wiklund & Shepherd 2003, Runyan, Droge & Swinney 2008), there has been relatively less work on the relationship between the small business owner’s self perception of success and their intention to grow their business. The growth of the firm is frequently used as a performance measure since small business and entrepreneurship researchers frequently use growth as an indicator of success (Murphy, Trailer & Hill 1996, Dobbs & Hamilton 2007). However, many small business owners choose not to pursue growth opportunities for fear of losing control of the firm’s operations and consequent loss of earnings. The business owner’s potential loss of the firm’s “small business” atmosphere also acts as a barrier to growth (Wiklund, Davidsson & Delmar 2003).

Some small business owners are not keen to expand their business simply because of lifestyle choices (Carlsen, Morrison & Weber 2008). Many small business owners are content with maintaining the lifestyle their business affords them and do not want to risk this by undergoing business growth (Frederick, Kuratko & Hodgetts 2006; Trott 2008). Consequently, there may well be business owners that do not seek the expansion of their firms yet still consider themselves as successful if they are
achieving other business and lifestyle goals. Conversely, business owners with the intent to grow their business might be achieving slower than expected business growth and therefore do not consider themselves as successful. The paper takes a closer look at this relationship and attempts to identify differences between growth and non-growth oriented small business owners and their self-perception of success.

The larger research project from which this paper was developed is the Western Australian Small Business Benchmarks (WASBB) project (Weber et al. 2009). WASBB was designed to develop and implement a model and methodology for measuring success across a broad range of personal and business metrics that is accessible to, and applicable by, small business owners. The long-term goal of the project is to generate a simple low cost set of metrics by which small businesses may benchmark their performance relative to other similar businesses. In tandem with this project, the questionnaire was used as a vehicle to support a study into knowledge acquisition by SMEs (Geneste 2010).

The proposition that this paper seeks to explore relates to the relationship between the growth orientation of the owner and his or her perceived levels of success. It is common parlance in business popular press and consultancy circles to suggest that success requires growth, that to stand still is to die. The question we raise here in an era when many small business owners are more focused on lifestyle than traditional growth is to what extent do small business owners actually ascribe to this mantra.

Hypothesis

The overall aim of this paper is to investigate if small business owners with the intent of achieving business growth are different to small business owners who do not share this intent in relation to their self-perceptions of success. The hypotheses associated with this study are therefore as follows:

\[ H_0: \text{There is no relationship between perceived small business success and the owner’s willingness to grow their business} \]
\[ H_1: \text{There is a relationship between perceived small business success and the owner’s willingness to grow their business} \]

LITERATURE REVIEW

Small Business Success

Applying the value-laden judgments of researchers is fraught with risk when one tries to define success, particularly by relying on quantitative and heavily deterministic measures such as turnover or profit. For some owners, just being in business is enough (Still, Soutar & Walker 2005); for others it is about doing good, about giving back to society and making a substantial difference to others (Dees 1998). Thus, it would seem that whilst quantitative measures of profit and turnover are useful to compare between subjects, they do not capture the broad spectrum of goals and ambitions that drive small business owner behaviours.

Curran and Blackburn (2001) describe as “dubious” attempts to describe the typical or average firm based upon specific measures such as turnover or profit. Perhaps success can be measured better by focusing on a plurality of attainments of both intrinsic or extrinsic goals (Kuratko, Hornsby & Naffgizer 1997; Robichaud, McGraw & Roger 2001). Particularly within the small business context, success can be a very personal (intrinsic) thing as Jennings and Beaver (1997, p. 63) report:
Contrary to popular belief, and a great deal of economic theory, money and the pursuit of a personal financial fortune are NOT as significant as the desire for personal involvement, responsibility and the independent quality and style of life which many small business owner-managers strive to achieve.

Jennings and Beaver (1997) also argue that academic attempts at defining success in the small business environment have been either a case of adopting narrow accountancy measures, or even more crude quantitative measures such as job creation and growth in turnover. They argue that the best measure of success may well be “the sustained satisfaction of principal stakeholder aspirations” (Jennings & Beaver 1997p. 68.). This satisfaction notion is similar to that espoused by Still and Soutar (2001) who looked at goal satisfaction as a proxy for success, hypothesizing that exceeding expected targets would lead to satisfaction and a global feeling of success. However, implicit in this language of ‘expected targets’ is a continued desire to measure the quantum of such satisfaction.

Personal or intrinsic success manifests itself in the current study as the internal sense of satisfaction or achievement that arises from owning and operating the business. Often, this subjective assessment is captured in the motivation and goal achievement literature, as well as in the psychological perspective of a workplace (Frese, Brantjes & Hoorn 2002). LeCornu et al. (1996) confirm the existence of small enterprise owners in Australia who are not motivated primarily by profit, underscoring the need for diverse measures of success. Also, King (2002) suggests this manifests itself as a need for spiritual success as well as monetary reward. Thus, non-financial success measures are becoming more frequent in the entrepreneurship and small business literature; the problem is one of selecting between alternate common themes.

Previously, the ABS has used a single-item measure of success, administered to small business owners in the Characteristics of Small Business series (ABS, 1997, 1999; 2001, 2003). Confirming the inherent limitations of adopting a single-item measure of a complex issue, other researchers have constructed a bank of four questions that seem to cover satisfaction with both personal and financial outcomes (Kaufman, Weaver & Poynter 1996). Space precludes a more substantive discussion around the range of intrinsic and extrinsic motivations, goals and metrics that have been identified by WASBB researchers (Weber et al. 2009). It is sufficient, for the purpose of this paper, to rely on the previously validated scale to compare the identified measures of success to their growth intentions described next.

Small Business Growth

Despite the problematic nature of defining small business success, growth of the small firm has frequently been used by researchers as a proxy for small business success (Baum, Locke & Smith 2001; Cliff 1998, Davidsson, Steffens & Fitzsimmons 2009; Wiklund & Shepherd 2003, Runyan, Droge & Swinney 2008). While the growth of the firm might be regarded more appropriately as a measure of organisational performance rather than success, Murphy, Trailer and Hill (1996) argue organisational performance is critical to understanding small business success and failure. Small business growth is measured according to a wide range of criteria including sales and turnover growth, market share, total assets, profitability and employee numbers (Glancey 1998, Davidsson et al 2002, Dobbs & Hamilton 2007, Davidsson, Steffens & Fitzsimmons 2009).

Dobbs and Hamilton (2007) reviewed 34 studies on small business growth published since the mid 1990s and found measures for growth included sales, financial growth, assets and employment. In nearly two-thirds of these studies, the increase in employee numbers was the key measure of small business growth (Dobbs & Hamilton 2007). The focus of economic policy studies on the contribution of small business to economic growth and job creation helps explain why employee numbers and growth are frequently used measures of small business success (Hoogstra & van Dijk 2004, Schutjens & Wever 2000, Dobbs & Hamilton 2007). According to Schutjens and Wever (2000), the use of
employee numbers as the measure of firm growth and size is the most appropriate since assets and turnover fail to account for non-financial entrepreneurial motivations.

Since most small business owners work full-time in their businesses, most business decisions must be made by the owners. Accordingly, the personal motivations and intentions of business owners will impact on whether they want to grow the business or decide to keep it to a size they are prepared to manage (Walker & Brown 2004, Cassar 2007). Consequently, the most important factor that contributes to small business growth is the commitment of the firm’s owner to business growth (Dobbs & Hamilton 2007). There are clear indications that many business owners deliberately refrain from pursuing and exploiting opportunities to grow their firms (Wiklund, Davidsson & Delmar 2003). These reasons include concern for employee well-being and the loss of the positive small business atmosphere that engenders comradeship, involvement and job satisfaction (Wiklund, Davidsson & Delmar 2003).

The effect of growth on the owner’s ability to maintain the control of the firm’s operations and the ability to survive crises, such as, an economic downturn and loss of earnings, are also concerns that affect the SME owner’s willingness to expand their business (Wiklund, Davidsson & Delmar 2003, Dobbs & Hamilton 2007). Some owners are simply not keen to expand their business because of deliberate ‘lifestyle’ choices (Carlsen, Morrison & Weber 2008). In fact, many owners identify themselves as lifestylers and expect no, or limited, medium-term growth potential for their business (Frederick, Kuratko & Hodgetts 2006; Trott 2008). Lifestyle oriented small firms can be conceptualised as businesses set up to undertake an activity that adds to perceived enjoyment of life in general via a level of activity that provides adequate income to the owner (Carlsen, Morrison & Weber 2008).

Although the growth intentions of a small business owner is not a measure for real growth, given the alternative attitudes of owners toward business growth, it is likely that these attitudes can be used to help distinguish between growth and non-growth firms (Dobbs & Hamilton 2007).

**METHODOLOGY**

Data collected from the 2008 pilot study of the Western Australian Small Business Benchmarks Survey (Weber et al 2008) were analysed for the purpose of this paper. An original total of 403 responses were received; 13 questionnaires were not used due incomplete responses or other unresolvable problems. Of the remaining 390 responses, a further 39 were removed as being from persons in organizations too large to qualify as small businesses by our adopted definition. Seven responses were also removed that ignored other exclusion criteria such as being not-for-profit entities or businesses that had not traded for a full financial year. Finally, four respondents from the remaining data set did not provide their growth intentions for their business and were also excluded from analysis. This meant a pool of 340 respondents was available for analysis (n=340).

This cross-sectional survey of Western Australian small businesses included a previously tested 4-item, five-point Likert scale on perceived personal success that accounted for the owners’ sense of achievement of personal, business and financial goals.

The aforementioned perceived success scale was used in this study, and, as in previous studies (Weber & Schaper 2007; Weber 2008) was found to be a stable, uni-dimensional and reliable indicator of perceived success. The scale was internally reliable with a coefficient Alpha (Cronbach 1951) of 0.931. In addition, the scale has excellent uni-dimensionality with the one factor solution accounting for nearly 83 percent (82.92%) of total variance. In this particular sample, the Kaiser Meyer Olkin test of sampling adequacy was a high .856 which is to be expected from a reliable scale drawn from a sufficiently large sample. In addition, Bartlett’s test of sphericity was significant (0.000 level), further indication of the existence of a single success factor. Therefore, one can be confident that the analysis
is based upon respondents who reliably report on their ‘success’. The four items that constitute the perceived success scale are reproduced below:

- My business has fulfilled or is fulfilling my personal goals
- My business has fulfilled or is fulfilling my financial goals.
- My business is a success
- I have accomplished or am accomplishing what I wanted to do with my business

All items were scored using a five point likert scale with anchors of strongly disagree and strongly agree.

Sample Profile

Some descriptive statistics for a range of variables will be looked at to examine the data set more closely. The variables that will be examined include size of the business in terms of the number of full-time employees, the number of years the owner had been in the business, the sales turnover of firms in the study and a breakdown of the ANZSIC industry sectors represented in the study.

The mean number of full-time employees in the businesses surveyed in the study (n=340) was 4.66, with a standard deviation of 8.39, ranging from a minimum of zero employees to 48 full-time staff. The majority of businesses within the sample did not have any full-time employees. This group of 154 businesses represented 45.3% of the respondents. Businesses with 1-4 employees made up the next largest segment of businesses (90) in this group representing 26.5% of firms in the study. The next largest segment of businesses was the 5-19 employee group accounting for a further 72 businesses (21.1%) in the study. Finally, 24 firms had between 20-49 employees (7.1%).

The number of years the owners had been in their business was also measured. The mean of business ownership years was 13.67. The lowest amount of years the business had been owned was 2 years, which was no doubt impacted by the minimum requirement of 12 months ownership for this study. There was a wide range of sales turnover reported by survey respondents (n=276). The reluctance of some business owners to reveal financial details of their business was reflected by the number of businesses (64) that did not provide turnover figures. The lowest reported annual sales turnover figure was $1000 and the maximum was $9 million. Mean turnover was $1.47 million with a standard deviation of $2.05 million. Over 60% of businesses reported a turnover of $1 million per year or less while 25 businesses (15.1%) reported earnings of $5 million or more per year.

Survey respondents were grouped into their respective ANZSIC industry sectors (2006) based on the description of their business activities. The main divisions represented in the survey were professional, scientific and technical services (85 firms accounting for 25% of sample); other services (32 firms, 9.4%); retail trade (32 firms, 9.4%); manufacturing (30 firms, 8.8%); and construction (28 firms, 8.2%). The “other services” category represents businesses that offer services such as repair and maintenance, personal care services and civic and religious services (Australian Bureau of Statistics 2006). The study was a cross-section of WA businesses and at least one business represented each of the different ANZSIC industry sectors. This demonstrated the broad range of businesses that responded to the survey. There were 12 businesses that could not be categorised into an industry grouping for lack of description of business activity. Businesses were present from most of the geographical regions of Western Australia.

The Analyses

Analyses were conducted on the data using SPSS version 17 and EQS 6.1. The analyses of the survey results for the overall success score included an independent t-test analysis to compare the means of the business owners who indicated a preference to grow their business and business owners who did not. Additionally, a Pearson correlation analysis on the business owner’s growth intention and two
measures, turnover and lifestyle was also examined. Finally, confirmatory factor analyses of the success scale were conducted on the overall sample as well as the growth versus non-growth sub-groups within the sample.

Independent t-test Analysis

An overall success score representing the sum of the four items was obtained for each respondent. The growth intentions of the business owners were ascertained depending on their selection of two options that best described their preference for the future size of their business – “I want the business to be as large as possible” or “I want a size I can manage myself or with a few key employees” (Cassar 2007). Of the 340 respondents, 177 indicated the intention to grow their business and 163 chose the non-growth option. Using SPSS, an independent t-test analysis of the means of the summed success score across the two small business groups was conducted to determine if there was any significant difference between the two means. The results of the analysis are presented in table 1.

Table 1  Independent Samples T-Test for Business Growth and Non-business Growth Respondents

<table>
<thead>
<tr>
<th></th>
<th>Levene’s Test for Equality of Variances</th>
<th>t-test for Equality of Means</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>Sig.</td>
</tr>
<tr>
<td>Success score</td>
<td>9.469</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The group statistics revealed the mean of the summed success score for the non-growth intention business owners (n=163) was 10.59 with a standard deviation of 4.89 and the mean of the success score for business owners with growth intentions (n=177) was higher at 13.65 and a standard deviation of 4.10. The results of the independent t-test analysis of the means of the summed success score across the two sub-groups revealed a significant difference, t(317) = 6.23, p<.01 between the two groups.

Pearson Correlation Analysis

A two-tailed Pearson correlation test was conducted to examine the association between the growth intentions of the business owners and two key variables, turnover and lifestyle. The lifestyle item, “I am in business so that I can enjoy an improved lifestyle” was scored using a five point likert scale with anchors of strongly disagree and strongly agree. The results of the analysis are provided in table 2.
The results show that in the group with no growth intentions, there was no significant correlation between sales and lifestyle items ($r = -.131, p > .05$). On the other hand, in the sub-group of growth oriented business owners, there was a significant negative correlation between turnover and the owners’ lifestyle ($r = -.349, p < .001$).

**Confirmatory Factor Analyses**

Confirmatory factor analysis, using EQS (version 6.1), of the success scale was conducted on the total sample of 340 respondents and subsequently run on the growth versus non-growth sub-groups within this sample to identify if the scale had a better fit on one of the sub-groups. The diagram of the CFA for the entire sample ($n = 340$) is provided in figure 1. The loadings for each of the items within the scale exceed the recommended minimum value of .5 showing good convergent validity (Fornell & Larcker 1981).

The results of the analyses for the entire survey group and the growth and non-growth subgroups are presented in table 3.
Table 3 Summary of Goodness of Fit Measures for Structural Models

<table>
<thead>
<tr>
<th>Model</th>
<th>Chi-Square</th>
<th>Degree of Freedom</th>
<th>Chi-Square/df Ratio</th>
<th>CFI</th>
<th>NNFI</th>
<th>RMSEA</th>
<th>90% CI Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td>5.59</td>
<td>2</td>
<td>2.80</td>
<td>.997</td>
<td>.990</td>
<td>.073</td>
<td>.000-.147</td>
</tr>
<tr>
<td>Model 2</td>
<td>1.49</td>
<td>2</td>
<td>.75</td>
<td>1.00</td>
<td>1.00</td>
<td>.000</td>
<td>.000-.137</td>
</tr>
<tr>
<td>Model 3</td>
<td>5.38</td>
<td>2</td>
<td>2.69</td>
<td>.994</td>
<td>.982</td>
<td>.102</td>
<td>.000-.210</td>
</tr>
</tbody>
</table>

Legend
- Model 1 - CFA results for entire sample (n=340)
- Model 2 - CFA results for growth oriented business owners
- Model 3 - CFA results for non-growth oriented business owners

The confirmatory factor analysis (CFA) for the success scale for the complete sample set (n=340) revealed good fit indices with a $\chi^2$ of 5.59 on 2 degrees of freedom (df). The $\chi^2$ statistic is below the 3:1 ratio to df which is recommended for a good fitting model (Hair et al. 2006). The other goodness of fit indices also showed a good fitting model with a confirmatory fit index (CFI) of .997 and non-normed fit index of .990. Both indices exceeded the .95 threshold of good model fit (Byrne 2006). The Steiger-Lindt root mean square of error of approximation (RMSEA) was .073, below the .08 value regarded as a reasonable error of approximation (Kaplan 2009). The Rho ($\rho$) coefficient for the scale, considered a more appropriate measure of internal consistency than Cronbach’s $\alpha$ for latent variable models, was .929 and also supported the convergent validity of the scale (Byrne 2006).

Since the aim of the study was to examine the relationship between the growth intentions of the small business owner and success, a CFA for the respondents indicating the intention to grow their business (n=177) was also conducted. The CFA for the success scale from respondents with the intention of growing their business also provided good fit indices with a $\chi^2$ of 1.49 on 2 df. The CFI was 1.00 and the NNFI was also 1.00 with an RMSEA of 0.000. On the other hand, the CFA for the non-growth oriented businesses returned indices showing a poorer model fit with a $\chi^2$ of 5.38 on 2 degrees of freedom, a CFI of .994, NNFI of .982 and RMSEA of .102. The results indicate the success scale had an overall better fit with the data from respondents with the intention of growing their business than respondents with no growth intentions.

RESULTS AND IMPLICATIONS

The results of the independent samples t-test (see table 1) showed there was a significant difference between the means of the summed success score in non-growth business owners ($x_1$ = 10.59) and growth oriented business owners ($x_2$ = 13.65). The higher mean for the success score for growth oriented small business owners provides some evidence that business owners who want to grow their business perceive themselves as more successful than business owners who want to manage their business themselves or with a key employee. A significant t-test result does not mean much unless the size of the effect it measures is also calculated. Using the “t” value and the degrees of freedom, the size of the effect, $r$, can also be calculated (Field 2005). The resultant value of .33 is considered a medium effect and reinforces the significance of the result. Admittedly, the intention to achieve business growth is not a measure of real growth but the results provide some argument supporting the perception that business growth and success are related.

The Pearson correlation test of the growth and non-growth subgroups and turnover and lifestyle (table 2) revealed an interesting result. Closer investigation of the two groups of “growth intentions” and “non-growth intentions” suggests an underlying tension between the levels of sales achieved (turnover) and the impact of the business upon the owner’s lifestyle. This significant negative correlation is only evident in the sub-group of growth oriented owners ($r = -.349, p<.001$). This might indicate the more
money the business owner hopes to make or is making, the more the business owner realizes it will be to the detriment of lifestyle. It seems that those that want to grow their business are not expecting there to be a lifestyle dividend, they are in it for something else (perhaps simply the money?). Conversely, in the group that had no growth intentions there is also no significant relationship between sales and lifestyle items ($r = -.131, p>.05$). If the data is further disaggregated, to inspect the extreme anchors on the scale of agreement or disagreement with the lifestyle question, then the difference in absolute dollar value of turnover is indeed substantial. In the subgroup that wants the business to be as large as possible, the mean turnover for those that strongly disagree with a link between lifestyle benefits and sales was $2,976$ Million, whereas those who strongly agreed with the lifestyle benefits of their business had a much lower mean turnover of just $559,000$ dollars. The implication here is that greed/growth may be good for the business, but perhaps not good for the business owner!

The results of the confirmatory factor analyses revealed the success scale had a reasonable fit with the data with overall good fit indices. The RMSEA result is considered an important goodness-of-fit statistic particularly because it has the advantage of having a confidence interval that accompanies it (McQuitty 2004). The RMSEA for the success scale on the main sample (n=340) was .073, a result deemed acceptable because it was below the .08 threshold value for a reasonable error of approximation (Kaplan 2009). The fit indices, and particularly the RMSEA for the success scale on the growth intent group (n=177) of .000, show an overall better fit than that for the entire sample. The result suggests that success has an overall better fit with business owners that are oriented towards the growth of their business. The RMSEA of .102 for the non-growth business owners’ group (n=163) shows a poorer fit with the data and also supports the finding that the success scale has a better fit with the growth oriented group. Caution should be taken when interpreting the model fit results, however, since the upper bound of the 90% confidence interval for the RMSEA result (see table 3) exceeds .1 for each sample group, a result that indicates the model has low statistical power (McQuitty 2004). Upper bound levels exceeding .1 indicate problems with model fit; however, this might be a reflection of the small model size, represented by the very low degrees of freedom associated with the model (df = 2) and the relatively small sample size (McQuitty 2004).

The overall results of the analyses lend support to \( H^1 \), that there is a relationship between small business success and the owner’s growth intentions. The results showed this relationship to be a positive one, i.e. that the owner’s intention to grow their business has a positive relationship with their self-perception of success. Additionally, the results of the Pearson-correlation test on the owner’s growth intentions and lifestyle and sales turnover show a significant negative relationship between sales turnover and lifestyle.

**CONCLUSION**

While the findings are only preliminary and more research is required to examine the relationship between business growth and perceived success, the study provides some evidence that business owners who adopt a growth orientation to their business might have a higher self-perception of success than their non-growth counterparts. There are a number of limitations associated with this study. One limitation is the use of the business owner’s intent to grow their business as a proxy for business growth. Naturally, simply because a business owner wishes to expand the size of their business in terms of employee numbers does not necessarily mean that the business will achieve growth. Another limitation of the study is the relatively small sample size used for the confirmatory factor analyses and the small model size (in terms of df). This affected the assessment of the overall statistical power of the model.

Nevertheless, the significant findings of the independent t-test analysis and the Pearson’s-correlation test conducted on the two growth sub-groups justify further investigation in the relationship between
success and business growth as well as the impact of business growth on lifestyle. The results also have implications for a number of research and policy settings:

- If owners who are growth oriented are also predisposed to positive self perceptions of their own success, this may result in spurious correlations being explained in some studies on small business growth.
- Where policy makers are intent upon supporting growth oriented firms, use of success perception scales may be one means of identifying likely candidates for additional support since it appears to be an indicator of growth intentions.
- Looking at the no growth ‘lifestyle group’ is it plausible to suggest that the lower levels of success perception associated with this group could be somewhat of a self fulfilling prophesy? If this were the case then one way to encourage the business growth so often chased by market commentators and management advice entities would be a focus upon measuring and quantifying success.

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