The Impact of Internal and External Influences Upon Management Practice Adoption and Strategic Decision-Making In Growth Oriented Firms: An Empirical Investigation

By

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ABSTRACT

This thesis provides an examination of how and why growth firms adopt and implement management practices and processes. It also analyses the extent to which management development can facilitate further expansion and provide growth oriented firms with sustainable competitive advantages.

The continued interest given to the small business sector by policy makers and academics can be attributed to the belief that these ventures will increasingly become the cornerstones of economic prosperity and wealth creation. The study draws its participants from the Wales Fast Growth Fifty Network, an initiative set up to champion the cause of growth firms in Wales. This initiative highlights that despite past successes in securing inward investment, the economic future of Wales will increasingly be dependent upon indigenous growth oriented businesses. The research adopts a two stage qualitative methodology and results are based upon three group interviews involving 18 growth oriented firms and a further 31 semi-structured interviews with owner-managers of growing business ventures.

The phenomenon of small firm growth has been approached from a wide range of theoretical perspectives. These approaches fail however, to explain how the abilities and motivations of the entrepreneur or owner-management team shape management development. Moreover, previous studies have yet to explore the internal mechanisms of the firms and in particular the extent to which firms can manoeuvre themselves into favourable market positions by establishing competency and knowledge based barriers to competition.

This study contends that the effective adoption of management practices and processes geared to long term market advantage is determined by the ability and experience of owner-managers. The research also reports that management practices such as marketing, planning, quality assurance and standardisation are all routinised and utilised by growth firms to engender sources of sustainable competitive advantage. Finally, a theoretical framework is posited, utilising the concepts of an entrepreneurial and management filter developed and refined in this thesis, to explain management development and how competitive advantages emerge.

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Certificate of Research

This is to certify that, except where specific reference is made, the work described in this thesis is the result of the candidate. Neither this thesis, nor any part of it, has been presented, or is currently submitted, in candidature for any degree at any other University.

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Director of Studies

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Chapter 1

Introduction

Chapter 1: Introduction

1.1 Overview

This thesis is a study of how and why certain management practices are adopted by small to medium sized growth firms. The research undertaken posits that strategic decision-making and management practice adoption in growth oriented firms is governed by an entrepreneurial filter. In addition, this work argues that as small firms evolve a management filter emerges which has an increasingly significant impact upon the subsequent strategic direction and scope of growth firms.

The study builds upon several important contemporary themes regarding the commonly held view that growth oriented small to medium sized companies have a significant role to play in fostering sustained economic development. The phenomenon of small business growth has been approached from a wide range of theoretical perspectives. In general, it is acknowledged that a number of internal and external factors influence small business growth. Previous research has often utilised growth as a dependent variable and examined its relationship with a number of independent factors such as firm, age, size, location, characteristics of the owner-management team, market orientation and strategy. Whilst it is evident that external variants do impact upon growth, the fact that only a very small percentage of firms achieve notable growth implies that internal influences such as management development and the ability and motivation of the entrepreneur or owner-management team are significant determinants of growth[1].

This study has examined growth from a number of differing perspectives, but has paid particular attention to the influence exerted by the entrepreneur or owner-management team upon the adoption and implementation of management techniques and processes. Despite the notable contributions made by the existing literature, research has yet to adequately address how and why growth firms adopt certain management practices. In response, this thesis develops the concepts of the entrepreneurial and management filter as possible instruments by which the adoption of management practices and their subsequent affect upon strategic decision-making can be explored and explained. In

[1] 1 Note: A recent report by the Federation of Small Businesses (2000) on small firm survival and growth in the United Kingdom concluded that the characteristics, ability and motivation of entrepreneurs were instrumental to firm survival and growth

addition, this study also investigates the extent to which management practices adopted by growth firms can be considered sources of sustained competitive advantage.

Previous research has usually opted for a quantitative approach to small business growth in an attempt to establish cause and effect relationships between a number of independent variables (O'Farrell and Hitchens 1988; Storey 1994; Smallbone et al 1995; European Commission 1996a). Other studies have chosen to utilise matched sampling techniques to discover whether there are any fundamental differences between growth and non-growth firms. It is argued in this thesis that a quantitative methodology was unlikely to produce any meaningful interpretations of how and why growth firms adopt certain management practices. Instead, this study adopted a qualitative methodology to examine management development in growth firms. The research also focuses upon a particular region of the UK in order to reduce any potential external variances. This study concentrates upon Welsh growth firms. There is currently little research in Wales regarding growth oriented companies and consequently this study is the first of its kind in Wales to investigate the phenomenon of growth from a management development perspective.

From a review of the existing literature, four research questions are developed to investigate how and why growth firms in Wales adopted certain management practices and processes:

- How do personality and background characteristics of the owner-manager or entrepreneurial team influence the adoption of management practices in growth firms?

- Why do growth firms adopt certain management practices?

- To what extent have the management practices adopted by growth firms secured a sustainable competitive advantage?

- How do the management practices adopted by growing firms influence subsequent strategic decision-making?

These research questions are explored through a two-stage research strategy. The first stage involves 18 firms in three group interviews to examine the management development challenges faced by growth oriented firms. In the second stage, 31 semi-structured interviews are conducted with owner-managers of Welsh growth firms. These interviews are designed to specifically examine the research questions developed in this thesis.

Results from the study suggest that the personality and background factors of owner-managers have a significant impact upon the strategic direction, scope and development of growth firms. The research also provides evidence that growth is not necessarily dependent upon a transition from an entrepreneurially to a professionally managed organisation. Instead, this study argues that growth oriented owner-managers possess a particular managerial awareness that drives them to formalise key processes to enable them to effectively manage the growth process whilst simultaneously pursing new opportunities.

The study also reports that practices such as marketing and processes aimed at the protection of patents and intellectual property rights provide evidence of owner-managers attempting to build sources of sustainable competitive advantage. These practices in conjunction with planning, quality assurance, financial reporting and standardisation all suggest that owner-managers of growth firms in Wales are attempting to build the necessary competencies to maintain these advantages. In addition, this thesis illustrates that the use of benchmarking, customer feedback and the recruitment of additional expertise are all utilised by growth oriented entrepreneurs to expand the productive opportunities of their firms. Finally, the research submits that the adoption of management practices and processes leads to the development of a management filter. This filter combined, in turn, with the entrepreneurial filter, has a significant effect upon the subsequent strategic scope and direction of the firm and influences decision-making at both an operational and strategic level.

1.2 Thesis Outline

The thesis is divided into ten chapters. The initial three chapters investigate the current small business and entrepreneurship literature. Chapter two discusses the general importance of small to medium sized enterprises to an economy and the significant contribution made by growth oriented businesses to economic prosperity in terms of employment and wealth creation. It also examines the different approaches utilised by academics and policy makers to investigate the phenomenon of small business growth. During this review the chapter reaches the conclusion that whilst there are a wide range of external factors that are conducive to growth, the ability of a firm to realise growth is dependent upon the ability and willingness of the entrepreneur or owner-management team to facilitate growth.

The third Chapter focuses upon the influence that is exerted by the owner-manager or entrepreneurial team upon firm growth and development. In this sense, reference is made to literature that contends that growth oriented entrepreneurs share a common personality profile. This chapter however, suggests that there is no correct combination of personality characteristics or background factors that can distinguish growth oriented entrepreneurs from small business owners. Nevertheless, the chapter argues that the personal attributes, skills, knowledge and experience of the entrepreneur or owner-management team are inextricably linked to strategic decision-making and hence effect firm development.

Chapter four discusses the importance of management and sustainable competitive advantage to small firm growth.. The Chapter outlines the important role management plays in securing and maintaining a firm's strategic position. It also outlines how management within a small firm is a unique process that is subject to continuous change. The Chapter concludes that it is the ability of management to identify, develop and re-deploy these capabilities in response to environmental opportunities and threats that ultimately decide the longevity of firm growth. In addition, it suggests that owner-management preferences and perceptions are also key determinants of the management techniques adopted by growth firms.

The next two Chapters focus upon the identification of a number of related research questions and the development of a suitable conceptual framework and methodology to investigate how and why certain management practices are adopted by growth firms. Chapter five discusses the primary research aims of the thesis and develops the concepts of the 'entrepreneurial' and 'management' filters. This Chapter also poses the four research questions that focus the study on exploring why certain management practices are implemented by growth firms and the extent to which these management practices endow firms with a sustainable competitive advantage.

Chapter six focuses upon the research methodology used to address the research questions developed in Chapter five. The Chapter also reaffirms the importance of adhering to the primary research objective and provides a justification as to why a qualitative approach is a suitable methodology to achieve this objective.

Chapters seven and eight report the results of the group and semi-structured interviews. Chapter seven discusses the initial stage of the research, which involved conducting three group interviews with a total of 18 owner-managers from the Wales Fast Growth Fifty Network. Chapter eight builds upon the observations made in the preliminary study. It is divided essentially into two parts. The first part illustrates the heterogeneity of the firms involved in the second stage of the study and includes rudimentary firm data and information concerning the backgrounds of participating owner-managers. The second section discusses the results of the semi-structured interviews conducted with owner-managers of growth firms in Wales and the qualitative data is organised so that the research questions developed in Chapter five are addressed.

Chapter nine analyses the results of the preliminary study and semi-structured interviews. The Chapter contends that the concepts of the entrepreneurial and management filter developed in Chapter five provide a suitable framework for understanding how and why management practices are adopted by growth firms. Based upon the main observations of this study, Chapter ten outlines possible implications for policy makers and identifies areas of future research.

Chapter 2

The Phenomenon Of Small Business Growth

Chapter 2: The Phenomenon of Small Business Growth

The continued interest in growth firms by academics and policy makers stems from a deep rooted belief that it is possible for the small firms of today to become the large, international champions of the future. Indeed, there are a number of success stories in which small firms have become market leaders and even companies such as Microsoft, Tesco and Virgin have all evolved from very humble beginnings. Nevertheless, it is an unrealistic assumption that small firms can be viewed simply as being little big businesses. The small business sector is highly heterogeneous and thus, there are numerous factors that either promote or constrain growth. Moreover, even in favourable conditions the majority of small firms remain small implying that growth is not simply an automatic process. This chapter explores the phenomenon of small business growth by first looking at the role small firms and high growth firms are expected to play in fostering competitive and prosperous economies. The chapter evaluates how different approaches to growth have been utilised to explain small firm growth and sustained superior performance. The chapter concludes by positing that despite the notable contribution these approaches have made to understand small firm growth, research has yet to address how small firms achieve growth and how management processes and resource allocation facilitate the growth process.

2.1 Small and Medium Sized Enterprises in Context

Ever since the early 1970s, small firms have been recognised by economists and governments throughout the western world as being essential to economic development in terms of wealth creation and employment. In addition, the escalating importance of small and medium enterprises (SMEs) to national economies have led to a number of policy decisions aimed at ensuring support for business start ups and encouraging established firms to grow (Kinsella et al 1994). SMEs account for 99.8% of all firms, 66% of total employment and 65% of business turnover in the European Union (Reynolds et al 1999). It is even argued that smaller companies not only generate a significant share of new employment but also play a crucial role in terms of economic growth and development (European Commission 1996a).

To date there is still no definitive measure of the total number of firms in the UK and proportion of which can be categorised as SMEs. There have been a number of commendable attempts to review existing data sources in order to produce an approximate figure for the number of businesses in the UK. For example a study by Bannock and Partners (1989) endeavoured to construct a more comprehensive data set of the total number of firms in the UK by amalgamating a number of data sets from a wide range of sources. This study utilised VAT-based data as its principal unit. VAT registration was used as apart from a few sectoral exclusions it provided comprehensive data on businesses which have a annual turnover in excess of the minimum threshold set by the UK government. Bannock and Partners (1989) supplemented this data to include an estimate of the number of firms that were unregistered for VAT due to their size, to produce a summary of the number of firms in the UK by legal status. Whilst this method has subsequently been enhanced to include information on firm size and employment (McCann 1993), it is generally conceded that due to a myriad of constraining factors hindering overall accuracy, figures pertaining to the total number of firms in the UK remain speculative (Storey 1994).

One of the major problems in trying to identify the number of SMEs in the UK economy is that historically there has been no uniformly satisfactory definition of what constitutes either a small or medium business (Storey 1994). Traditionally objective measures of size, such as number of employees, net worth and turnover, have been operationalised but fundamental differences at the sectoral level have often meant that these definitions cannot be universally applied. To address the problem of heterogeneity, the Bolton Report (1971) proposed that in economic terms a firm could be regarded as being small if it was independently owned, managed by its owner(s) in a personalised way and had a relatively small market share. In addition to this economic definition, Bolton (1971) acknowledged that any definition had to embrace sectoral differences and consequently introduced a statistical equivalent for a variety of sectors ranging from manufacturing and construction to retailing and miscellaneous services. These definitions however, have been subject to a number of criticisms relating to complexity and comparability. Moreover, the Bolton definition relies on the orthodox economic concept of perfect competition, ignoring the fact that many successful small firms occupy particular market or geographical niches (Storey 1994). Perfect competition also implies that small firms are, to all intents and purposes, unable to influence the external environment despite the Bolton Report's (1971) own admission that the SME sector is essentially a primary source of innovation and change (Stanworth and Gray 1991).

In response to these criticisms, an attempt has been made by the European Commission to introduce an all-encompassing definition of a small or medium business. By reducing the definition to a single criterion, namely employment, the commission has been able to eliminate the problems of complexity and non-comparability and ensure that the definition adequately reflects the stages of SME development (Atkinson and Meager 1994; Storey 1994). More recently, this interpretation has been enhanced by the European Commission (1996b). This new definition now includes additional measures relating to independence, turnover and the size of a firm's balance sheet in addition to the employment criteria (Table 2.1).

Table 2.1: European Commission - Small and Medium Sized Enterprise Definitions (Feb. 1996)

Criterion	Micro	Small	Medium
Max. no. of employees	10	50	250
Max. annual turnover	-	7Mecu	40Mecu
Max. annual balance sheet total	-	5Mecu	27Mecu
Independence (external ownership by another firm)	-	25%	25%

Note 1 : 1Mecu = £630,000 (London Stock Exchange, Nov. 1999)

Note 2 : to qualify as an SME, both the employee and independence criteria needs to be satisfied in conjunction with either the turnover or balance sheet total criteria

Despite these changes, it is pertinent to note that the single employment criterion is still prevalent in the UK (Department of Trade and Industry 1998a). In this context, micro firms are viewed as having less than ten employees, small firms are defined as employing less than 50 people and medium sized firms having no more than 250 employees.

Recurring problems with existing definitions have also led researchers to establish a number of grounded interpretations on what can be considered a small or medium firm. Thus, it is common to see the use of different objective variables, such as size, profitability and turnover in sectorally specific studies to define a small or medium sized firm in relation to a particular sector, market or region. Historically, this has proved useful when examining behavioural or managerial issues associated with the small firm

(Storey 1994). One alternative perspective to identifying the characteristics of a small firm has been to examine the fundamental differences between small and large firms. Small firms differ from large firms not only in terms of size but also management style, structure and organisational governance (Miller et al 2000). In fact, it is submitted that the differences between large and small firms are so pronounced that it is insufficient to view these distinct forms as one homogeneous grouping for the purposes of comparative analysis (Penrose 1995). Furthermore, Wynarczyk et al (1993) maintain that the concepts of uncertainty, innovation and evolution effectively distinguish the small firm from its larger counterpart. Uncertainty provides that small firms can generally be viewed as being price takers (O'Farrell and Hitchens 1988). In this sense, it is purported that small firms can rarely offer products or services above the prevailing market price and as a result are more susceptible to socio-economic fluctuations[1]. Conversely, it is argued that the entrepreneurial nature of the small firm enables it to respond quickly to change and adopt innovative techniques, whereas large traditional firms are consistently being cited as cumbersome, inflexible and diffident to change (Lefebvre et al 1997). Nevertheless, it is important to note that whilst large firms are beginning to embrace Intrapreneurship[2] as a vehicle for creativity and flexibility, small firms are often unable or unwilling to operationalise new concepts and practices due to the preferences of the owner manager or the lack of relevant resources (O' Farrell and Hitchens 1988). Finally, small and large firms are different in terms of evolution and change. Large firms have comprehensive administrative structures, asset bases and formalised management practices that afford them relative stability, whilst the volatility of the small firm sector provides that smaller ventures often experience transformational change but discontinuous evolution. Thus as firms grow, many changes occur which influence the structure of the organisation and the style and role of management (O'Farrell and Hitchens 1988; Storey 1994; Dyer 1997)[3].

[1] Note: In certain circumstances however, small firms, through the process of innovation can introduce new products or develop new markets that are protected by either intellectual property rights or patents.
[2] Note : Intrapreneurship used in this sense simply refers to entrepreneurship within an existing corporate setting (see Pinchot 1986).
[3] Note: This statement does not infer that growth is linear. Sections 2.3.1 and 2.3.3 emphasise this fact, arguing that growth is not an automatic or simple process.

Given the relative importance of the SME sector to the UK economy in terms of job and wealth creation it is perhaps somewhat surprising that a concerted effort has yet to be made by governments to minimise the problems of data source accuracy and SME definition. One possible reason for this apparent apathy could be attributed to the fact, that many small firms cannot be realistically captured using existing business registers due to various tax related exemptions (Bannock and Partners 1989). Consequently, whilst it is reasonable to conclude that the structural economic realignment, technological change, fragmentation and unemployment have been instrumental to raising the profile and significance of small firms in the UK economy, any measure of this impact is at best, a rough estimate (Storey 1994). Recent estimates however, suggest that there are approximately 3.65 million enterprises in the UK and in 1994, micro enterprises employing less than five people accounted for 89% of all enterprises, 24.3% of employment and 14.1% of turnover (Hughes 1997).

It is contended that in terms of net job creation SMEs have been able to more than compensate for job losses in large enterprises. Additionally in recessionary periods small enterprises are often better equipped to absorb economic shocks and are less inclined to pursue downsizing strategies than their larger counterparts. Notwithstanding this fact, employment creation in Europe has been far from impressive in addressing the problems associated with unemployment when compared with SMEs in the United States which created over 2.1 million jobs in 1994 (European Commission 1996b).

It is maintained that the increasing importance of the service sector, the proliferation of small scale technological production, outsourcing, fragmentation and easier access to the global market place offers a bright future for new and emerging enterprises in Europe. Failure, however, continues to be the major characteristic of the small business sector (Storey 1994) with an average 50% of small ventures in the European Union failing within the first five years of trading (Burns 1996). Small ventures are often subjected to hostile environments in which high interest rates, unfair competition, unequal power relationships and lack of resources are all cited as factors that are detrimental to small firm survival (Hall 1992; Keasey and Watson 1993; Storey 1994). Thus, it is reported that the growth in the number of small firms in recent years represents the effect of a copious number of start-ups but also a large number of small business deaths. This process, labelled 'churning', is an essential part of the small business sector dynamic and it is maintained that many small firms simply cease trading and start new ventures in order to respond to emerging business opportunities (Burns 1996). Despite this evidence, it is argued that factors that lead to business cessation are not known with any certainty and can often only be identified after a business has failed (Storey 1994). Nevertheless, it is commonly accepted that infancy, size, customer dependence and an inability to manage change and make strategic adjustments are instrumental to business failure (Smallbone et al 1992; Hall 1992; Storey 1994), whilst the desire to grow and continuous adaptation are positively correlated with survival (Smallbone et al 1992, 1995; North et al 1992).

Evidence from the United States however, continues to persuade academics and governments alike that the commitment to sustaining and developing entrepreneurship should be maintained. Data from the US reports that whilst companies listed in the Fortune 500 have lost a total of 5 million jobs, other SMEs have created more than 34 million jobs since 1980 and that in 1996, 15% of fast growing firms accounted for 94% of the 1.6 million jobs created by small businesses (Reynolds et al 1999). In light of this data, it is perhaps unsurprising this intense entrepreneurial dynamism, rapid growth coupled with low inflation and unemployment, support claims that entrepreneurship is synonymous with economic growth (Reynolds et al 1999). Furthermore, in a recent Department of Trade and Industry white paper titled - Our Competitive Future: Building the Knowledge Driven Economy, the UK government (1998b) further advocated the role of entrepreneurship to an economy by concluding that:

> *'Entrepreneurship and innovation are central to the creative process in the economy and to promoting growth, increasing productivity and creating jobs. Entrepreneurs sense opportunities and take risks in the face of uncertainty to open new markets, design products and develop innovative processes' (p.14)*

As a result it is surmised that entrepreneurial activity within the small business sector in the UK will continue to play a pivotal role in improving national and regional economic prosperity. Recognition of the fact that small businesses are generally better placed to respond to changes in the market and that economies of scale are no longer as important in a society where consumers demand bespoke goods and services, will ensure that small businesses continue to warrant increased attention (Burns 1996; Reynolds et al 1999). Moreover, it is envisaged that these changes will augment the small business sector as social changes and market opportunities attract more and more people towards entrepreneurship, allowing small firms to become fully integrated into the mainstream of economic activity (Burns 1996).

2.2 Small Business Growth and Its Importance to an Economy

It is acknowledged that growth oriented SMEs exert a strong influence on national economies, especially given the rapidly changing and highly competitive markets that now exist (Yeh-Yun-Lin 1998). Furthermore, it is argued that companies that can respond flexibly and creatively to market, technological and societal developments establish strong positions and enjoy superior performance (Balje and Waasdorp 1999). As a result, the ability to seize and fully exploit the potential of opportunities has become an increasingly important factor in fast changing environments for businesses and is a characteristic often associated with successful, high growth firms (Balje and Waasdorp 1999).

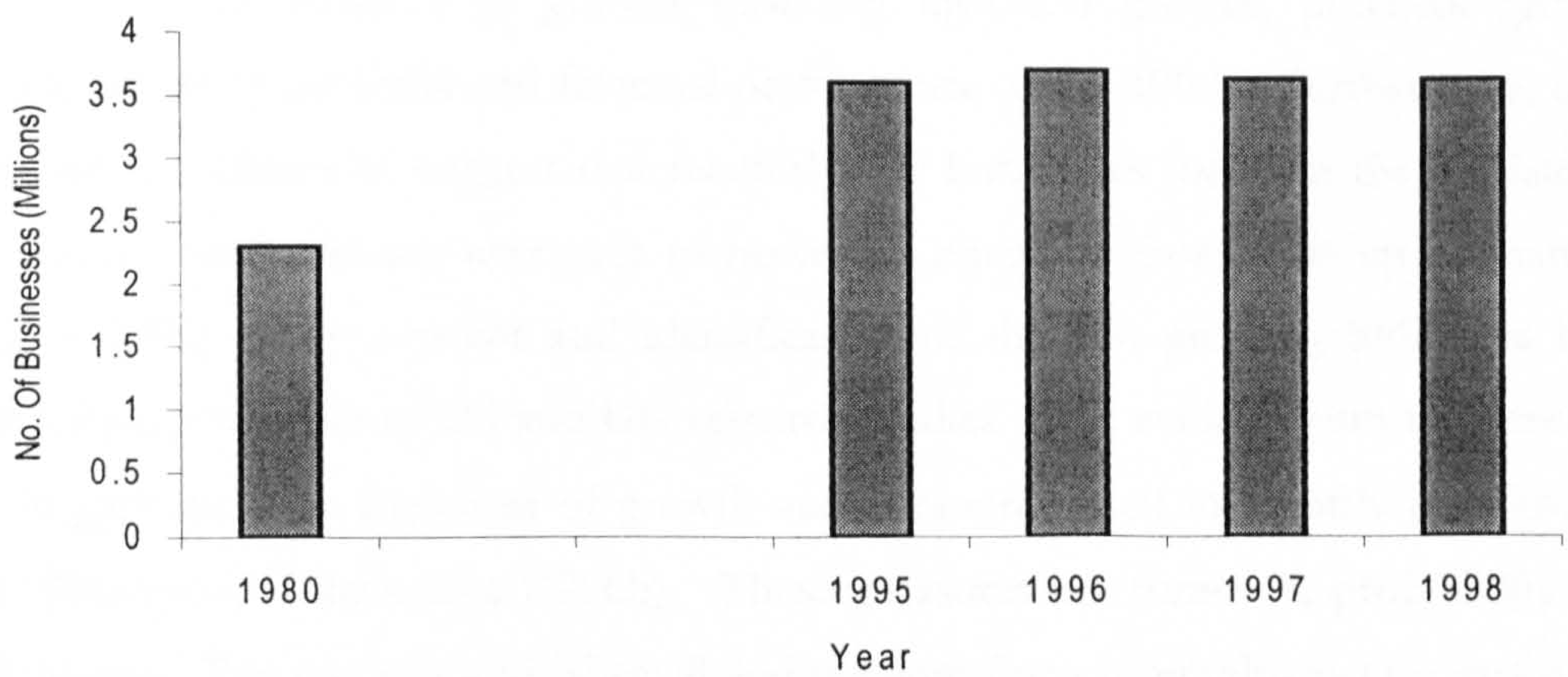
The Bolton Report (1971) reported that the small business sector was very likely to be the seedbed from which the large firms of tomorrow would develop. Studies have ensued pertaining to the importance of small firms to national and regional economies in terms of employment, wealth creation, competition and innovation. Despite these claims, subsequent research has reported that in the majority of cases small ventures remain small (Gibb and Davies 1990; Storey 1994; Smallbone et al 1995; Barkham et al 1996). In fact, it is maintained that in light of empirical research, failure seems to be a more common characteristic of the small business sector (Storey 1994). A minority of small firms however, do experience growth and empirical evidence suggests that these firms make a disproportionate contribution to wealth and employment creation (Storey et al 1987; Storey et al 1989; Gibb and Davies 1990; Storey 1994; Westhead and Birley 1995; European Commission 1996b; Fischer et al 1997; Delmar and Davidsson 1997; O'Gorman 2000). It is still commonly asserted that out of every 100 small firms, the fastest growing four firms will create half the jobs in the group over a decade (Storey et al 1987; Storey 1994; Barkham et al 1996). Notwithstanding the fact that it is possible to level criticism at the methods employed to support this generalisation in terms of sectors and the quality and age of the data used, it is pertinent to note that subsequent studies which have attempted to address these limitations have often yielded similar results (Storey 1994). One study by Gallagher and Miller (1991) which compared the performance of 2,600 firms in Scotland with 20,000 firms in the South East of England led to the conclusion that in both samples high flying firms were responsible for creating a disproportionate amount of employment. More recently, the Department of Trade and Industry's White Paper on Competitiveness (1998b) stated that whilst the UK had more people wanting to start a business than many other countries;

> *'[When] compared to the United States, too few of these businesses achieve growth...[because] they lacked a competitive edge and their founders often lack[ed] the ambition and capabilities to manage growth' (p. 14)*

In the early 1980s in a number of EU countries, but particularly in the UK, the major policy and strategic emphasis was placed on stimulating new firm formation (Storey 1994; Burns and Harrison 1996). This emphasis was due in part to evidence that suggested that the smallest firms were responsible for the preponderance of innovation and employment creation (European Commission 1996b). Towards the end of the decade however, a re-evaluation of the role played by small firms in national and regional economies, revealed that a small but highly significant number of high growth firms could not only explain the bulk of new jobs created but also generated the most significant innovations (European Commission 1996b). Thus, with increasing concern being shown about growth and employment opportunities within the UK, there has been a notable shift in the interests of policy makers and SME assistance organisations from supporting business formation to focusing on the needs of growing companies (Gibb and Davies 1990; European Commission 1996b).

One significant reason for this shift in interest was in relation to the limited resources that support organisations and policy makers could give to the small business sector. It was therefore decided that given these circumstances, resources should be deployed to various sectors, regions and businesses where there were greater chances of success in terms of exporting, renewal, innovation, employment and wealth creation (Gibb and Davies 1990).

This emerging rationale can be illustrated by examining the current size of the small business sector in the UK. There are approximately 3.65 million enterprises in the UK (Department of Trade and Industry 1998a). This figure effectively encompasses all business types from the self-employed to large organisations employing more than 500 people. The number of firms recorded in the UK has remained relatively stable over the past 10 years but in absolute terms the UK's total business stock has increased by 1.3 million since comparable figures were first produced in 1980 (see Figure 2.1). This growth can be explained primarily by the increases in self-employment. Of the 3.65 million businesses in the UK in 1998, 2.33 million (62.16%) of all firms can be classified as businesses without employees, leaving 1.32 million firms that currently employ a workforce (Department of Trade and Industry 1998a).



Source : Department of Trade and Industry – Small and Medium Enterprise Statistics for the UK 1998

Figure 2.1 Number of Businesses in the United Kingdom 1980-1998

The majority of these firms, as previously stated, can be described as being either a small or medium enterprise and it is therefore unsurprising that support organisations and policy makers were unable to provide adequate resources to assist and develop the small business sector as a whole. Moreover, empirical evidence suggesting that over half of these businesses will cease trading within the first five years of inception (Burns 1996) and the realisation that only a handful of surviving small firms will make a significant contribution to an economy would also provide a strong case for lavishing greater support on growth oriented small firms. Additional support for this claim is provided by the Inc. 500 in the United States and data on the subsequent performance of fast growing companies, first listed in 1985. The report highlighted that of the 500 firms identified, 328 had recorded net employment gains, creating a staggering 81,900 jobs and were still outpacing the US economy by between 9% and 24% (Mangeladorf 1996)[4].

It is therefore apparent from this evidence that the growth company has been the focal point for UK public policy in the 1990s (Gibb 1998). There is however no agreement as to what constitutes a growth firm. Previous research has used a myriad of different definitions in its analyses of growth including historical growth, potential growth, clusters, exporting potential and financial performance (Gibb 1998). Furthermore, there is increasing evidence to suggest that relatively few businesses maintain the persistently high growth rates that are necessary to make the transition from start up to maturity (Hughes 1997). The concept and identification of the fast growing SME has been alluded to in a number of US and UK research studies. It is evident from this research that, in general, three measures of growth are commonly used to identify high growth firms (European Commission 1996b). These measures are turnover, profitability and employment. The contribution of small and medium firms to employment creation has received increased attention in recent years and studies by Storey et al (1987), Woo et al (1988) and Westhead and Birley (1995) have all utilised employment growth to investigate high growth firms. The most commonly used measure of growth is turnover (European Commission 1996b). Due to ease of identification and accessibility of data there is a plethora of research studies and a number of regular published listings that employ turnover to identify high growth firms. For example initiatives such as the Inc.500, The Sunday Times/Virgin Fast Track 100 and The Western Mail's Wales Fast Growth Fifty all publish lists of fast growing firms based upon either absolute increases or annualised compound increases in turnover. In addition, studies by Siegel et al (1993), Smallbone et al (1995) and Delmar and Davidsson (1997) use differing levels of sales growth to define high growth companies. In contrast to sales, profitability is the least used of these measures and is often used as an additional selection criterion to determine research samples (Kinsella et al 1994; Smallbone et al 1995).

Despite increased research efforts it is evident that our knowledge of high-growth firms is still limited (Delmar and Davidsson 1997). Entrepreneurship is increasingly being defined in terms of performance and growth (Gartner et al 1992; Fischer et al 1997) yet few studies are able to take into account the many different forms growth can take or

[4] Note: of these firms, Microsoft alone created approximately 15,000 jobs.

how it can be defined (Delmar and Davidsson 1997). Some firms grow in a conventional manner, achieving growth in terms of both employment and turnover, others only increase sales and some achieve growth through acquisition and merger (Penrose 1995; Delmar and Davidsson 1997). In addition, firms vary in the rate at which growth is achieved. Some will enjoy smooth, incremental growth while others will endure rapid, discontinuous growth (Davidsson and Delmar 1997). As a consequence it is perhaps unsurprising that there is little agreement as to what factors affect growth or how growth can best be measured (Delmar 1997). Nonetheless, enough evidence exists supporting the view that high growth firms are significant contributors to regional and national economies. Research has highlighted that these businesses not only create substantial employment and initiate innovation but also they act as role models to which others can aspire (Balje and Waasdorp 1999). Nevertheless, it is important that in order to fully support these important economic contributors, efforts are made to engender support mechanisms which understand that growth is not a homogenous or linear process and more importantly understand how a wide range of inter-related external and internal influences shape or constrain the performance of high growth oriented firms (Smallbone and Wyer 2000).

2.3 Approaches to Small Business Growth

A number of theoretical and empirical studies have been used to analyse the small business sector. The majority of these studies have tended to concentrate upon issues such as innovation, business start up and survival (O'Farrell and Hitchens 1988; European Commission 1996b). Research into the phenomenon of small business growth however, has generally centred upon the influences and characteristics that enable small firms to grow. In other words, research has simply endeavoured to identify factors that facilitate or constrain the development of a small business venture. Gibb and Davies (1990) proposed that there are essentially four dominant approaches utilised by researchers to examine growth. Market led approaches are concerned with industrial economic explanations of growth and macro-economic influences such as sectoral approaches which focus upon specific industrial sectors or geographical regions. On the other hand, business management and entrepreneurial approaches tend to concentrate on the traits, characteristics and capabilities of the owner-manager arguing that these factors can differentiate high growth firms from low growth firms. Finally, organisational development studies broadly examine the metamorphosis of a small firm as it passes through its organisational life cycle. More recently, Storey (1994) in a comprehensive review of the literature concluded that there are three fundamental influences upon small firm growth. Storey (1994) submitted that the characteristics of the firm, the strategies adopted and the owner-manager are all crucial in determining the growth potential of a small organisation. Kinsella et al (1994) and Barkham et al (1996) have subsequently advocated these three factors in studies investigating the differences between high growth and low growth businesses in Ireland.

Notwithstanding the arguments that exist relating to how growth can best be examined, it is apparent that there is some consensus as to how small growth is achieved. In general, researchers have examined general economic theories of firm development, external and internal influences on growth and differences between high growth and non-growth ventures in order to better understand the phenomenon of small firm growth. In addition, there is also common agreement that despite limitations, small business ventures do undergo a number of transitions as they achieve certain levels of organisational growth.

2.3.1 Economic Perspectives of Growth, Firm Organisation and Development

At the heart of economics is the concept of growth – how it operates, what factors influence it and how best it can be measured (Reynolds et al 1999). In an attempt to address the phenomenon of growth a variety of approaches have been developed ranging from purely descriptive models to some, which focus on the stages of growth and development. The conventional model of national economic growth implies that SMEs essentially play a secondary role in the economy supporting the activities of larger more established firms (Reynolds et al 1999). More contemporary models however, afford entrepreneurship with an active role in generating economic prosperity. These models simply combine the traditional model with models detailing the effect of the entrepreneurial process on national economic growth (see Figure 2.2). In this consolidated model it is maintained that social, cultural and political factors not only influence national framework conditions such as levels of research and development, infrastructure, robustness of legal and social institutions, but also levels of governmental support given to foster entrepreneurship such as education initiatives, financing and technology transfer mechanism. Whilst the national framework conditions continue to influence the conventional model in which some small firms operate in a subordinate role to large firms, entrepreneurial framework conditions influence the ability of firms and individuals to seize and maximise the potential of existing and emerging market opportunities.

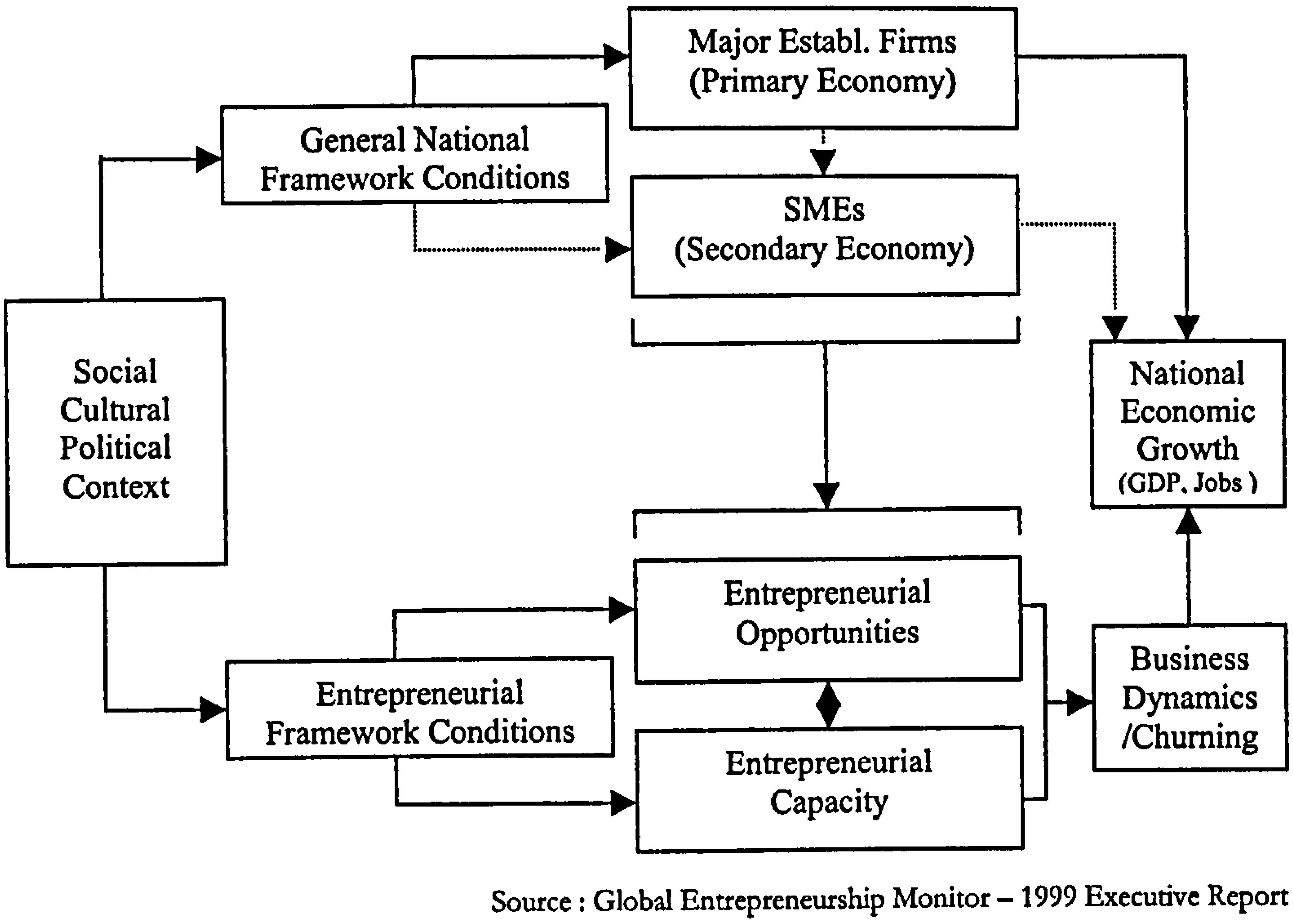


Figure 2.2 Contribution of Entrepreneurship to National Economic Growth

The extent to which market opportunities can be identified and exploited is determined by the degree to which firms have the necessary entrepreneurial capacity to secure survival and growth. The net effect of this business dynamic in which firms are created, survive and grow or decline and fail, represents the contribution made by the entrepreneurial sector to a nation's economy (Reynolds et al 1999). In other words, it is argued that in addition to the contribution made by the small business sector in the secondary economy, the existence of entrepreneurial growth firms ensures that the sector also makes a direct contribution to national economic growth.

From an economic perspective, it is submitted that most small ventures commence production at a scale below the minimum efficient size (MES) for their industry. It is therefore argued that the inability to achieve MES may ultimately lead to failure if competitors are capable of operating at or above this level of efficiency (O'Farrell and Hitchens 1988). When this level is reached and the costs of producing additional units no longer vary with volumes of output, growth is subsequently determined by the ability of the firm to meet the ever changing demands of its environment and the extent to which growth is a strategic objective (O'Farrell and Hitchens 1988). Thus, as a firm reduces its costs, it embarks on a competitive struggle in which expansion and limits to its size are constrained by technological and managerial scale factors (Holmstrom and Triole 1989; Conner 1991). Firms exist however, within industry grouping at differing sizes. This observation, and the realisation that it was possible for firms to grow to the MES for an industry regardless of production efficiencies, led to the development of the imperfect competition model to replace the shortcomings of the perfect competition archetype (O'Farrell and Hitchens 1988).

Historically, there have been a number of growth models developed within the field of industrial economics to explain the behaviour of growth firms (O'Farrell and Hitchens 1988). These models however, pay little attention to the uniqueness of small firm development and instead concentrate upon explaining the behaviour of larger firms. As an example, in their seminal work, Hay and Morris (1979) suggested that large and small firms simply occupy different points on the same continuum of corporate development. This implies that the process of growth is simply dependent upon a venture passing through a combination of life cycles and being influenced by a range of economic variables which influence growth, failing to address the importance of entrepreneurial action and motivation (Barkham et al 1996). Barkham et al (1996) also maintain that whilst neo-classical economics continues to offer models that appeal in terms of consistency and robustness, the removal of the human element essentially denies a role to the owner-manager or entrepreneur. In this sense, these models make unrealistic assumptions regarding the extent to which firms possess perfect information and their ability to continually mobilise resources and ascertain the correct input mix to yield profit maximisation through a specifiable production function (Conner 1991). Moreover, outside the firm, price determines the allocation of resources through a process of exchange. In contrast, within the firm, the allocation of resources becomes the result of administrative decision (Coase 1937). As the activities of a firm increase and its administrative structure expands, poor decision-making caused by increased strain put upon existing systems of control and information, force mistakes that devalue the resource allocation process (Coase 1972). Thus, as a firm diversifies its activities to pursue growth, limits are placed on the rate of expansion through administrative capacity

(Penrose 1995). Furthermore, the firm is faced with problems of agency in which monitoring and policing costs associated with opportunism and shirking (Alchian and Demetz 1972; Demetz 1995) are detrimental to sustained performance. In light of these difficulties it is perhaps unsurprising that small business growth is an exceptional process in which the likelihood of further expansion is not only dependent upon the motivations and capabilities of the entrepreneur under conditions of uncertainty but also the extent to which the firm can effectively co-ordinate its activities.

Hay and Morris's (1979) model also makes the assumption that a firm can effectively manipulate the competitive environment despite evidence suggesting that many small firms function as price takers, operating in a dependent relationship as suppliers to larger firms that exert considerable influence over markets and prices (O'Farrell and Hitchens 1988; Miller et al 2000). In these circumstances it is argued that dominant firms are either in a position to exercise certain monopolistic powers or collude with other firms in order to inflate market prices by restricting productive output. Thus, the motivation for firm expansion is related to the ability of a venture to increase its owner market power through the processes of acquisition and erecting a number of industry level barriers of entry (Bain 1956; Conner 1991).

Bain-type industrial economics and its claims that persistent above normal returns are based upon limited types of firm heterogeneity continues to hold appeal despite inconclusive empirical evidence (Conner 1991). One possible contributing factor is that it underpins Porter's (1980; 1985) competitive forces model in strategic analysis. In his seminal work, Porter (1980) argued that every industry has an underlying structure and a set of economic and technological parameters on which these competitive forces were based. The most influential of these forces would therefore not only determine the attractiveness of an industry in terms of profitability but also establish how firms could achieve success (Porter 1980; Mintzberg and Quinn 1996). In fact, closer inspection reveals that Porter (1980) relies heavily on the concepts of bargaining power and barriers to entry to explain how certain competitive factors determine the strategic alternatives available to a firm. Whereas Porter (1980) argues that the entrepreneur plays an important role in strategic formulation and subsequent success, theories of environmental determinism posit that performance is governed by an ever changing array of environmental characteristics over which management has little or no control (Delmar

1997). These theories argue that it is the ability of management to continually adapt that secures survival (Hannan and Freeman 1977; Aldrich 1979). Given that dependent relationships do exist between large and small firms, population ecology has received notable support as a possible theory of the small firm (Gopalakrishnan and Dugal 1998). This rationale is based upon empirical evidence supporting the proposition that small firms tend to be specialists rather than generalists and hence have a reduced ability to adapt to change (Hannan and Freeman 1977).

Environmental determinism however, fails to recognise that reality is a subjective phenomenon and that environmental perception is shaped by a myriad of idiosyncratic factors (Penrose 1995; Gopalakrishnan and Dugal 1998). Moreover, Schumpeter (1950) suggests that the social value of various market structures could not be easily assessed by utilising static views of competition. Schumpeter (1950) believed that capitalism was an evolutionary process in which firms were called upon to challenge the competitive nature of an industry by seizing opportunities to create or adopt innovations that made the position of competitors obsolete. In other words, Schumpeter's premise was that monopolistic power is a powerful incentive for radical innovation rather than a means of impeding and restricting competition (Conner 1991). Consequently, notwithstanding the fact that larger firms do invariably enjoy unequal power relationships in a number of industries, the concept of Schumpter's dynamic competition provides that it is possible for innovative small firms to achieve growth and challenge established modes of competition.

Despite the longevity of theories of firm organisation and growth, most fail to adequately explore how internal factors can endow firms with sustainable competitive advantages that are crucial to growth (Foss 1996). Orthodox approaches continue to inadequately provide for the fact that firms do not always behave rationally (Rumelt 1984), while other theories tend to emphasise the importance of governance structures rather than production (Hodgson 1995). Even Porter's (1980) industrial based analysis which argues that all firms have the ability to establish a favourable position for themselves in given markets, fails to take in to account that firms do not all share the same knowledge, competencies and resources to erect the necessary barriers that sustain competitive advantage (Foss 1996; Knudsen 1996). Most contemporary approaches however, discard with neo-classical price theory and view heterogeneity and accumulative learning as core concepts. Common to these theories is the significance given to internal rather than external conditions for explaining sustained superior performance (Knudsen 1996). Factors such as internal competence and the degree to which firm-specific knowledge and resources provide the firm with the ability to earn above normal returns and build long term competitive advantages now dominate strategic management literature (Foss and Knudsen 1996).

These contemporary approaches to strategic management, such as the resource-based theory of the firm and the competence perspective have evolved from economics and the concept of internal growth. These complementary theories derive from the premise that division of labour and specialisation increases productivity. In other words as a task is repeated and perfected, the resulting organisational slack can be put to other productive uses (Knudsen 1996). The endogenous perspective was initially developed by Marshall (1920) and more notably by Penrose (1995) in her seminal work that proposed an economic theory for firm growth. Penrose (1995) argued that as a firm accumulated knowledge, it was capable of gradually expanding its set of production opportunities. In addition she argued that internalisation of certain managerial routines enabled managers to create time to discover and develop new directions for firm development. Penrose (1995) also proposed that the rate of expansion was constrained by the ability of a firm to successfully integrate new skills, knowledge and management into an existing organisational framework. In this sense, she contended that whilst new managerial talent, skills and knowledge could lead to expansion, the costs evolved in this process often led to organisational inefficiencies that eroded overall profitability (Penrose 1995; Barkham et al 1996).

The resource-based theory of the firm has derived its theoretical underpinning from the theory and concepts developed by Penrose (Knudsen 1996). This approach focuses upon the costly to copy and inimitable attributes of the firm as sources of economic rents, performance and competitive advantage (Rumelt 1984; Barney 1986, 1991; Wernerfelt 1989, 1995; Conner 1991). Thus, according to this perspective, a firm's ability to establish and maintain profitable market positions conducive to growth is dependent upon whether it can sustain advantageous positions in underlying resources associated with superior competitiveness in either production or distribution (Conner 1991). Furthermore, it is submitted that sustained performance is determined by the extent to which a firm can continually deploy and combine organisational, human and reputation capital to achieve a strategic fit between its internal competencies and environmental opportunities (Rumelt 1984; Conner 1991). It is therefore reasonable to surmise that growth is determined, in part, by the ability of management to maintain and develop new competencies in response to environmental opportunity. In fact, Rumelt (1984) contends that;

> *"In essence, the concept is [simply] that a firm's competitive position is defined by a bundle of unique resources and relationships and that the task of general management is to adjust and renew these resources and relationships as time, competition and change erode their value" (p. 557).*

It is apparent that the majority of existing schools of thought that reside in the economic literature fail to shed light on the issue of small business growth (O'Farrell and Hitchens 1988; Barkham et al 1996). Most of the recent economic literature on the determinants of small business growth has tended to concentrate on a combination of life cycle effects and a range of economic variables to explain differences in economic returns and growth (Reid 1993; Barkham et al 1996). The emergence of the resource-based perspective however, offers some respite to the catalogue of problems associated with traditional approaches to firm development and growth. Whilst it rejects some of the assumptions made by industrial organisation economics it still incorporates some of the core aspects of these theories (Conner 1991). For example, the resource-based view discards the neo-classical assumptions of perfect information, resource mobility and divisibility, yet adopts the neo-classical view of the firm as an input combiner. Moreover, at its core is the belief that firms are able to sustain above normal returns in the long run, but not through collusive and restrictive practices alluded to by Bain-type industrial economic approaches. Instead, it is argued that by fully utilising existing and emerging competencies, a firm is capable of sustaining its competitive advantage (Conner 1991). The resource-based theory of the firm also aligns itself with the concept of dynamic competition proposed by Schumpeter (1950) and supports therefore the notion that small firms can challenge the equilibrium of existing markets through the process of innovation. Finally and most importantly, the resource-based view acknowledges the importance of the human element as an ongoing determinant of firm growth (Barkham et al 1996; Foss 1996). This recognition not only enables the firm to be viewed as a collection of individuals with abilities and knowledge which influence firm performance, but also re-asserts the importance of the owner-manager in determining strategic direction through resource acquisition, development and allocation[5].

2.3.2 Differences between Growth and Non-Growth Firms

The realisation that the majority of small firms do not grow implies that there are some fundamental differences between firms that pursue and achieve growth and those that remain small (Burns and Harrison 1996). In this sense it is argued that once a firm has achieved a certain level of growth to ensure survival, further growth is almost always dependent upon the owner-manager. For the majority of entrepreneurs however, decisions tend to simply centre upon how to maximise success while at the same time maintaining the existing size of the business (Burns and Harrison 1996). A small minority on the other hand are growth oriented and are actively looking to build and grow a successful venture. These individuals, or groups of individuals, often introduce particular structures and systems to the business to prepare and support the growth process and hence it is maintained that the objectives and management style in growing firms differ significantly from those of lifestyle businesses (Burns and Harrison 1996). Moreover, fast growing firms are also depicted as having a very different development trajectory, often growing at a significant pace in their formative years to quickly establish themselves in their chosen market (Storey and Sykes 1996).

In their study of 'supergrowth' companies, Ray and Hutchinson (1983) identified a number of important differences between growth and static, or lifestyle, businesses. They noted that supergrowth companies were driven by a number of financially oriented strategic objectives and often used cash-flow and other forecasting and financial management tools to monitor performance. They also characterised fast growing firms as having autocratic professionalised management structures that were supported by a number of functional teams. In contrast, they reported that lifestyle businesses tended to be managed in a paternalistic manner with owner-managers placing more emphasis on independence and relationships with key suppliers and customers (Ray and Hutchinson 1983).

[5] Note: The resource perspective is also discussed in Chapter 4. In Chapter 4 it is argued that the ability of management to identify, develop and augment certain combinations of resources is instrumental to the process of achieving sustainable competitive advantage.

These observations (summarised in Table 2.2) not only highlight the differences that exist between growth and non-growth firms but also the heterogeneity that exists within the small business sector (Burns and Harrison 1996).

Table 2.2: Differences between the Characteristics of Growth and Non-Growth Firms

	Growth Companies	Static Companies
Objective	Maximise Profits Increase Sales	Less emphasis on profits Maximise Independence
Organisational Structure	Tree Structure Development of Teams Various employment contracts Formalised	Tree in well established firms Informal
Style of Management	Autocratic Consultative style emerging	Paternal
Structure of Internal Accounting	Movement to profit centres	Holistic
Historical Data	Cash Flow Monthly forecasts	Little to none
Key Variables	Cash flow Profitability Sales	Supplier/Customer relationships

Source : Ray, G.H & Hutchinson, P.J (1983), The Financing And Financial Control Of Small Enterprise Development, Gower

Subsequent studies have yielded similar results. A report by 3i European Enterprise Centre (1994) across five European countries including the United Kingdom and France, found that fast growing firms usually had high levels of internal organisation, were led by experienced and knowledgeable entrepreneurs, set clear and precise strategic objectives and possessed formalised planning and control systems. Conversely, low growth firms were found to possess little in the way of a formalised management or planning structures and were constantly having to try and adapt to changes in the market place. In their study, which compared the characteristics of twenty fast growth and twenty matched firms in the North-East of England, Storey et al (1989) discovered that fast growth firms were more likely to introduce new products and services than their matched counterparts. They also concluded that fast growing firms had a greater understanding of their markets, an increased propensity to export their products and services and were often managed by well educated and experienced owner-managers (Storey et al 1989). In a study that sought to replicate the methodological approach used by Storey et al (1989) in Ireland, Kinsella et al (1994) were able to draw similar conclusions regarding the differences between growth and non-growth firms. In addition, research by Macrae (1992) based upon 169 responses of small companies in Scotland reported that whilst there were no significant differences between the motivations of owner-managers of high and low growth firms in terms of chosen market, high growth entrepreneurs were more likely to be highly educated, possess previous management experience and place more emphasis on market positioning and human resources[6].

2.3.3 Stages of Growth

One of the most common misconceptions is that traditional methods of analysis used to examine growth in large organisations can be consistently applied to the phenomenon of small business growth. Models that have been developed in the industrial economics paradigm have to all intents and purposes ignored the development sequences associated with the small firm (O'Farrell and Hitchens 1988).

It is argued that growth involves a number of transitions that fundamentally change the nature of the firm as it experiences growth (Penrose 1995; Storey 1994). These substantial shifts in the characteristics of the firm have led to an extensive amount of literature suggesting that from birth, a new venture passes through a number of development stages before it reaches maturity (Churchill and Lewis 1983; Scott and Bruce 1987; Storey 1994). Stage models of growth address the various stages through which a small business advances from inception to maturity. At each stage it is maintained that the small firm undergoes a transformation in terms of the role of the founder, the style of management and its organisational structure (Scott and Bruce 1987; Storey 1994). There is currently no consensus as to the definitive number of phases a new venture is required to pass through to reach full maturity (O'Farrell and Hitchens 1988) and consequently considerable variation exists between competing frameworks. Greiner's (1972) growth stage model primarily concerns the augmentation of an industry, arguing that there are five growth phases that give rise to four fundamental growth constraints which have to be overcome in order to progress through each stage. Devine (1979) reduced the number of industrially based phases to three, arguing that growth should not be construed as a single development process but rather a series of

[6] Note: The influence of the entrepreneur or owner-management team is discussed at length in Chapter 3.

evolutionary processes in which small firm driven sequences were eventually superseded by a series of competitive and oligopolistic led sequences.

James (1973) argued that the product life cycle stages from introduction to decline could be used as a template to describe the life cycle of a corporation. Mueller (1972) utilised the concepts of new product development and implementation to liken the process of growth to that of an S curve. In this context, Mueller (1972) suggested that a small firm's short formative period was accompanied by a phase of fast growth due to initial market advantages. Rapid growth however, was not easy to sustain and it was subsequently argued that the growth rate of the firm subsided as competition grew and differential advantages were gradually eroded (Mueller 1972; Stanworth and Curran 1976).

The stage model approach to growth tends to ignore the fact that the majority of small firms are unable or unwilling to entertain sustained growth (O'Farrell and Hitchens 1988). Instead it is contended that stage models are nothing more than heuristic classification schemes that do not adequately identify the mechanisms or conceptualise the processes that facilitate growth (O'Farrell and Hitchens 1988; Storey 1994). These models also imply that the growth is a 'forced' process in which firms must either succeed or fail, despite empirical evidence that suggests growth is an exceptional occurrence (Hakim 1989; Storey 1994). Moreover, it is maintained that stage models of growth often underestimate the significance of externalities, power driven relationships, regional differences and importance of non traditional measures of performance to the process of small firm growth and development (O'Farrell and Hitchens 1988; Gibb and Scott 1985; Gibb and Davies 1990).

Given the apparent lack of consensus, ambiguity and conflict derived from the stage model approach to growth, it is reasonable to conclude that small firms can be characterised essentially by their differing approaches to strategy, management and organisation (Churchill and Lewis 1983; Dyer 1997). Nevertheless, some stage models do take into account these differences and try to accommodate the idiosyncrasies of small business growth (O'Farrell and Hitchens 1988). For example, the stage model of growth developed by Churchill and Lewis (1983) explicitly acknowledges firm heterogeneity and that growth should not be construed as either a linear or automatic process. The model proposed by Churchill and Lewis (1983) reported that there were essentially five phases of small firm growth, namely existence, survival, growth, take-off and resource maturity, and at any given stage a firm may decide to either consolidate or pursue further development (O'Farrell and Hitchens 1988; Dodge and Robbins 1992).

In general terms the initial phases of stage models of small business growth relate to the importance of the founder and the simple processes that effectively manage and organise the activities of the firm (Churchill and Lewis 1983; O'Farrell and Hitchens 1988). The next stages outline the characteristics that enable the firm to survive whilst subsequent phases focus upon the processes that allow a firm to consolidate or sustain growth (Churchill and Lewis 1983; Scott and Bruce 1987). Furthermore, these stages describe a wide range of procedures and systems that are introduced to manage the increasing complexity of the organisation (Scott and Bruce 1987; Churchill and Lewis 1983; O'Farrell and Hitchens 1988). Within each of these stages the owner-manager or management team is often confronted by a number of challenges that can either inhibit or fuel subsequent growth and are exemplified by notable changes in the management and organisation of the firm (Churchill and Lewis 1983; Dodge and Robbins 1992). Moreover, it is maintained that in the initial start-up and survival stages of growth owner-managers are confronted with a range of external barriers to survival whereas in the later stages problems tend to shift to creating efficient structures and management systems that are able to support further growth and development (Dodge and Robbins 1992). As a consequence of the findings from their empirical investigation, Dodge and Robbins (1992) concluded that whilst small firms rarely shared the same problems in terms of organisational development, sustained growth was increasingly dependent upon a firm's internal capability to effectively manage the process of growth.

2.3.4 Internal and External Factors Influencing Small Business Growth

A wide range of factors, some of which are external to the firm and others that are internal and within the control or influence of the owner-manager, affect small business growth. There is also an increasing body of research that attempts to empirically investigate the impact of both internal and external factors on small business growth (Wijewardena and Tibbits 1999). For example, in a study of commercial enterprises in Singapore, Tan and Tay (1994) discovered that factors such as financial support, relative size, the prior experience of the owner-manager, the provision of a quality product or service and the ability to deliver excellent customer service were all significantly related to small venture success. Furthermore, a study by Davidsson (1991) which surveyed 432 small manufacturing firms in Sweden reported that the managerial, industrial and entrepreneurial experiences of owner managers along with external factors such as location and membership to a particular industrial grouping were positively correlated to small business growth. Other studies have concluded that factors such as good management, the personal qualities of the entrepreneur and governmental support are all conducive to success (Wijewardena and Tibbits 1999). There is also a growing number of studies that seek to identify what barriers to growth are faced by enterprises. Certain studies emphasise the significance of internal barriers to growth such as motivational and managerial capacity issues (Barber et al 1989; Storey 1994; Hughes 1998) whilst others conclude that external barriers to growth such as lack of finance, availability of labour and excessive governmental legislation inhibit small firm growth (Advisory Council of Science and Technology 1990; Cambridge Small Business Research Centre 1992).

2.3.4.1 External Determinants of Small Business Growth

External factors concern the wider economic environment such as market demand for products and services, interest rates, the availability of finance and competition. It is also reported that many of these factors are determined by national governments. Whilst support policies are often constant within a single country, regional and sectoral differences can have a profound effect upon small business growth (Barkham et al 1996). Furthermore Storey (1994), in his comprehensive review of small firm growth literature contended that external factors such as industrial sector and location along with various firm characteristics including age, legal identity and size, were all important control variables in understanding the process of small business growth.

It is commonly accepted that small firms tend to position themselves in localised or niche markets (Penrose 1995; Bradbury and Ross 1989). This market positioning, whilst affording smaller firms relief from competition, implies that small firms are overly dependent on a diminutive customer base (Cambridge Small Business Research Centre 1992; Hughes 1998). Conversely, it is argued that sustained growth often requires fast growing firms to entertain geographical and product diversification to capitalise on differential advantages (Macrae 1991; Kinsella et al 1994; Smallbone et al 1995; Hughes 1998). It is therefore submitted that whilst specific attention must be given to macro and micro economic barriers to growth it is reasonable to expect that fast growing firms are better equipped to overcome these constraints through innovative marketing strategies and market re-positioning (Kinsella et al 1994; Hughes 1998).

Fast growth is often linked to the legal status of the business. The main benefits of incorporation include limited liability and a perceived creditability with potential sources of finance and customers. These benefits are weighed against disadvantages such as an increased administrative burden and costs of compliance. Evidence suggests that limited companies are more likely to grow than partnerships or sole proprietorships yet there is considerable debate as to whether the incorporated status of a firm is a factor affecting or a consequence of growth (Hakim 1989; Storey 1994). In other words it can be argued that whilst the legal status of a business entity at start up may influence the ability of the firm to attract external support and customers, the achievement of growth and desire to entertain further growth may also prompt a partnership or sole proprietorship to seek incorporation to facilitate or support the growth process.

Given that successful small firms operate in a wide range of industrial sectors and geographical locations, it seems evident that growth can be achieved across a variety of markets and sectors (Smallbone et al 1995). Previous studies are united in the observation that there are significant differences between industrial sector and venture growth (Storey 1994). Moreover, the fact that there is little agreement as to whether there is a distinct relationship between sales growth and employment growth suggests that in some industries growth is typified by an increasing workforce whilst in other sectors growth is expressed in purely financial terms. An example of this is high technology sectors, where specialised firms dramatically increase revenue without any need to augment the workforce (European Commission 1996b).

Growth is often dependent upon the buoyancy of local economies, as in the majority of cases, small firms derive a considerable proportion of their income from localised markets (Curran et al 1991; Storey 1994). Moreover, previous studies have noted that there are significant differences between rural and urban localities (Storey 1994; Smallbone et al 1992, 1995). It is contended that firms located in accessible rural areas grow more rapidly than firms based in urban conurbations or remote rural locations. This trend is partly explained by the differing levels of competition and hostility of urban environments as opposed to the relative protection afforded by rural locations. Nevertheless, studies by Kinsella et al (1994) and Smallbone et al (1995) suggest that the market environment and market activity are important factors that influence venture growth. Kinsella et al (1994), in a study of high growth firms in Ireland, noticed that fast growing firms did not rely heavily on the domestic market despite enjoying a larger market share than non growth firms, whilst Smallbone et al (1995) observed that fast growth firms could succeed in unfavourable sectors by developing new markets for their products. Furthermore, fast growing firms have a greater propensity to export or entertain an exporting strategy to facilitate growth (Kinsella et al 1994). In other words, it is evident that fast growth firms not only derive success from certain sectors or markets but also are more inclined to implement marketing strategies that seek to sustain growth (Smallbone et al 1995).

It is well documented that younger firms grow at a faster rate than more mature ventures (Storey 1994). This general pattern is usually attributed to the economic assumption that small firms must quickly achieve MES in order to survive (O'Farrell and Hitchens 1988; Storey 1994; Burns and Dewhurst 1996). In the majority of cases, it is reported that small firms can reach this level without ever becoming efficient by selling to relatively uncompetitive markets and protected regional markets (O'Farrell and Hitchens 1988). Furthermore, whilst evidence exists correlating survival with growth (Phillips and Kirchhoff 1989; Burns and Harrison 1996), it is argued that small firms cannot survive in industries in which economies of scale continue to dominate competitive strategies unless they can either secure the benefits of MES or alternatively establish niche markets (Burns and Harrison 1996). Notwithstanding this fact, there is a substantial amount of literature which suggests that even when these inefficiencies have been overcome, further growth cannot be construed as being automatic (O'Farrell and Hitchens 1988; Watson 1990; Storey 1994; Jennings and Beaver 1997).

It is also contended that if young small firms are more likely to experience rapid growth then it follows that size should be negatively correlated with growth (Storey et al 1987; Dunne and Hughes 1992). Consequently, it is maintained that smaller ventures pursue growth out of a necessity to survive. Once survival has been secured however, these relatively larger and more mature firms often opt for stability and steady growth rather than continued expansion. This position however, is disputed within the literature and it is argued that small firms that have experienced growth in the past are more likely to seek substantial growth in the future (Cambridge Small Business Research Centre 1992; Storey 1994). Notwithstanding the intricacies of the argument, it is perhaps pertinent to note that whilst size may seem to have a significant effect upon the subsequent growth of a business venture, size, to all intents and purposes is simply a state rather than function of growth (Penrose 1995). In other words, whereas growth enables a firm to expand its asset base, the extent of a firm's asset base does not always infer that the business venture will be capable of, or willing to, entertain future expansion (Mullins 1994; Foss 1996). It is therefore reasonable to conclude that whilst age offers, albeit at a rudimentary level, a possible explanation of firm growth, size should only realistically be utilised as a control variable (Murphy et al 1996).

2.3.4.2 Internal Determinants of Small Business Growth

Historically, research and theory has indicated that company size, geographical location and industrial sector are significant influences on firm growth. Despite these claims, subsequent research has revealed that these factors alone cannot sufficiently explain growth (Barkham et al 1996). Previous research suggests that the majority of small firms are unable or unwilling to entertain the notion of growth (Kets de Vries 1977; Schein 1985; O'Farrell and Hitchens 1988; Burns and Harrison 1996; Storey 1994). For example, Hakim (1989) reported that even during times of favourable macro-economic conditions, approximately 60% of firms had no aspirations to grow and only 15% of small independent firms were actively seeking expansion. Notwithstanding differing definitions of what actually constitutes growth it is evident that the objectives of the firm are inextricably linked to growth. The owner-manager, to all intents and purposes, governs the strategic direction and objectives of the firm (O'Farrell and Hitchens 1988; Jennings and Beaver 1997). Whilst growth is not an automatic process it is contended that the motivation of the owner-manager is an essential factor in determining growth (Barkham et al 1996). Therefore, the choices made by the entrepreneur ultimately decide the growth trajectory of the small firm. In this sense, it is submitted that at any given time the firm may disengage from its current growth trajectory and instead consolidate its current position in order to meet the personal aspirations of its owner(s) (Storey 1994). The misconception that the firm can be viewed as a profit maximiser stems from the influence of orthodox economics (Gibb and Davies 1990). The fact that the goals of the firm are essentially those of its owner and the reality of only a small percentage of small firms achieving substantial growth, seems to suggest that the single profit objective proposed by many economists is somewhat unrealistic (Gibb and Davies 1990).

The impact that the owner-management team reportedly has on firm performance and development has spawned a considerable amount of literature that attempts to correlate certain personality and background characteristics of entrepreneurs with small business growth[7]. In general these studies, which have sought to examine the individual's role in the growth process, have failed to produce a typology that reliably predicts the competencies and personal characteristics required to ensure small business growth (Gibb and Davies 1990). Furthermore, existing research tends to concentrate upon individualism and the extent to which the characteristics and competencies of the entrepreneur correlate with venture performance (Chandler and Hanks 1998). These studies however, have only been successful in establishing that these variables share relatively weak links with performance (Begley and Boyd 1987; Hollenback and Whitner 1988; Herron and Robinson 1993). Consequently, contemporary research has expanded its boundaries to incorporate the characteristics and competencies of entrepreneurial teams (Chandler and Hanks 1998). These studies have investigated a wide range of issues but in general terms advocate the premise that team founded ventures are more likely to succeed than firms established by an individual (Chandler and Hanks 1998). It is therefore submitted that fast growth is associated with the number of owner-managers and the knowledge base of the top management team (Barkham 1992; Storey 1994; Kinsella et al 1994; Barkham et al 1996).

In his comprehensive review and development of a theoretical framework to explain growth, Storey (1994) identified fifteen possible entrepreneurial variables that previous authors had employed to explain variations in growth between small firms. Of these, he concluded that businesses that were born out of a motivation to exploit an opportunity rather than necessity and managed by highly educated middle aged individuals were more likely to achieve rapid growth. The previous organisational experience of the entrepreneur also influences future growth (Smallbone and Wyer 2000). Given that an estimated 90% of founders start their companies in the same market place or industrial sector it is perhaps unsurprising that this experience, especially in terms of management

[7] Note: See Chapter 3.

skills is essential to successful venture growth (Smallbone and Wyer 2000). In addition to these factors, similar studies have also concluded that the previous management experience and background of the owner-manager is also vital to facilitating the growth process (Macrae 1991, 1992; Barkham 1992; Jones-Evans 1994; Barkham et al 1996).

Closely related to the concepts of the previous background and managerial experience of the entrepreneur is the ability of a growing firm to effectively administrate the need to change from an entrepreneurial to a professional mode of management (Flamhotz 1986; Gibb and Davies 1990). In this respect, the competencies of the owner-manager to facilitate and build suitable administrative frameworks and controls are considered important determinants of continuous growth and development (Storey 1994; Hughes 1998). For example, it is widely accepted that one of the main managerial dilemmas faced by small growth firms is marketing (Smallbone and Wyer 2000; Stokes 2000). Consistently developing a customer base whilst maintaining current levels of customer satisfaction is crucial to all businesses but especially to firms that occupy niche markets. Marketing however, has long been identified as a particular weakness of small firms and there is an inherent need to develop support initiatives to address this problem (Smallbone and Wyer 2000).

In these cases, the founder does not possess the necessary skills and attributes to manage growth successfully. Hence, whilst the characteristics of the entrepreneur are an integral part of the early stages of small business growth, subsequent growth is increasingly dependent upon the development or acquisition of a number of general management skills (Gibb and Davies 1990; Barkham et al 1996; Hughes 1998). Furthermore, it is reported that in these circumstances the original founder often feels compelled to sell the business as a going concern or surrender absolute control to parties that are able to bring the skills required for growth to the business (Penrose 1995).

Given the importance of management to growth it is evident that effective planning is also a critical factor for many businesses wishing to grow (Gibb and Davies 1990; Storey 1994; Kinsella et al 1994; Barkham et al 1996). Once initial systems for managing customers and finances are established, organisations wanting to grow further have to construct strategies that enable them to continue to pursue innovation, access new markets and manage increasingly complex structures (Smallbone and Wyer 2000).

Therefore, it is perhaps unsurprising that previous research has highlighted new product development (Woo et al 1988; Kinsella et al 1994; Storey 1994), market positioning (Storey et al 1989; Macrae 1992; Storey 1994), management recruitment and training (Storey et al 1989; Macrae 1992; Storey 1994) as being positively correlated with growth. It is also argued that the resource choices made by the entrepreneur during the early stages of the business can have a significant effect upon the subsequent performance and ultimate success of an enterprise (Hart et al 1995). It is therefore contended that the achievement of growth is constrained by the firm's ability to access the necessary resources required for expansion (Hughes 1998). In other words, the attainment of growth is not only derived from external market conditions but also the firm's capability to establish an appropriate business platform from which expansion can be successfully realised (Klofsten 1998; Hughes 1998). Firm formation and development creates a bundle of internal resources that are utilised by management to fuel growth. Thus, growth is dependent upon the extent to which management can effectively combine resources to engender superior performance (Rumelt 1984; Wernerfelt 1984, 1989, 1995; Hughes 1998)[8].

In the strategic context, the concept of competitive advantage concentrates on activities or processes that generate superior rents over a substantial period of time and are difficult to imitate (Mintzberg and Quinn 1996). In this sense, idiosyncratic firm attributes provide the basis for superior performance (Penrose 1995; Barney 1986, 1991; Prahalad and Hamel 1990; Knudsen 1996; Foss 1996). Differential advantages are essentially derived from superior skills, resources or position of an organisation within its competitive environment (Mintzberg and Quinn 1996). Organisational skills that provide a firm with a competitive advantage emerge as a result of firm specific historical development, temporal enhancement through co-ordinate and collaborative practices and properties that ensure they are costly and difficult to imitate (Barney 1991; Foss 1996). A firm's resources are also sources of competitiveness and relate to patents, specialised physical assets, technological competencies, supplier relationships, distribution channels and customer base that are also accumulated over time (Mintzberg and Quinn 1996; Tether 1997). Finally a firm's competitive position consists of the products and services

[8] Note: Issues concerning management evolution and development are discussed in Chapter 4.

it supplies, its markets and the extent to which it is isolated from direct and potential competition (Mintzberg and Quinn 1996)[9].

Prior small business research has concluded that there are three essential resources instrumental to growth. These are human, technological and financial resources. Human resources relate to the quality and availability of labour whilst technological assets provide firms with the necessary innovation and information to respond to and exploit market opportunities. It is reported that the availability of skilled labour is an important factor in determining a firm's ability to grow (European Commission 1996b). For instance, it is suggested that certain regions possess particular competencies and this factor has a strong influence on the types of firms that can flourish in a given location (European Commission 1996b). In addition, the resources of managerial capacity and slack are also viewed as being critical to small business growth (Gibb and Davies 1990; Penrose 1995; Fischer et al 1997). Many commentators have implied that the availability of financial resources is a not only important for companies wishing to grow but also for firms wanting to survive (Burns and Harrison 1996). Moreover, studies investigating the impact of finance on small venture survival and growth have proposed that these difficulties also include the ability of management to secure and effectively utilise financial resources (European Commission 1996b). Fast growing firms however, are less likely to be constrained by access to financial resources. Instead, high growth firms cite access to complementary management and labour skills as considerable barriers to sustained performance and growth (Penrose 1995; Smallbone et al 1995; Hughes 1998).

2.4 Small Business Growth – A Complex Phenomenon

This Chapter has established that the continued interest given to the small business sector by policy makers and academics can be attributed to the belief that these ventures will increasingly become the cornerstones of economic prosperity and wealth creation. Since the early 1970s, small firms have been hailed as being essential to economic stability and growth. The Bolton report (1971) was the one of the first to acknowledge that the small business sector was very likely to be the seedbed from which the large internal champions of tomorrow would be found. Despite subsequent empirical research that posited that in the majority of cases small firms do not grow, evidence emerged

[9] Note: The concept of competitive advantage and the role that management plays is creating and sustaining a firm's distinct advantage is further developed in Chapter 4.

supporting the premise that a very small percentage of small growth firms make a disproportionate contribution to economic prosperity.

It has also been seen that the phenomenon of small growth has been approached from a wide range of theoretical perspectives. Whilst the majority of these approaches can be subjected to criticism, all agree that small growth businesses are fundamentally different from non-growth firms, pass through a number of growth transitions and are influenced by a variety of internal and external factors. It is clear that the impact of external influences can have a significant impact upon the growth of smaller firms, particularly in having the resources and expertise to cope with the demands of turbulent business environments. All the same, even when external factors arguably favour small firm development, the fact that only a minority of small businesses are able to sustain superior performance, strongly suggests that internal factors exert a greater influence on venture growth. In other words whilst the identification of favourable environment conditions is useful, the propensity to grow often comes down to the ability and motivations of the owner-management team.

It is evident that the majority of growth perspectives discussed in this Chapter acknowledge that internal firm influences are instrumental to growth. For example, stage models of growth approaches argue that continued firm development is increasingly dependent on the internal capabilities of the firm. Until recently, strategy has been dominated by the concepts proposed by Porter (1980, 1985) that contend that competitive advantage is determined by the erection of entry barriers and inter-firm collusion. This approach however, fails to explore the internal mechanisms of the firms and in particular the extent to which firms can manoeuvre themselves into favourable market positions through collusion or establishing barriers to competition. Traditional strategic management approaches are based upon an organisation's ability to manage its strengths and weaknesses in line with opportunities and threats provided by the environment. This approach is driven by the belief that it is the internal conditions of the firm that enable firms to build and sustain competitive advantages by simultaneously exploiting opportunities and neutralising threats. Moreover, economic and strategic theories of the firm, such as the resource-based view of the firm, argue that superior performance is governed by the extent to which costly to copy and inimitable resources can endow firms with sustainable competitive advantage.

Chapter 3

The Entrepreneur & Firm Growth

Chapter 3: The Entrepreneur and Small Firm Growth

Building upon the observations made in Chapter two, this Chapter examines the role of the entrepreneur or entrepreneurial team in the process of small firm growth. In the early stages of organisational growth, the entrepreneur arguably plays a crucial role in deciding what the firm does and how it operates. Research continues to support the premise that entrepreneurs who display certain personality traits establish successful firms. A number of studies have also attempted to associate various background factors and competencies with superior performance. In addition, the construction of entrepreneurial typologies that combine a wide range of personality, background and capability attributes report that growth firms are usually formed by a particular entrepreneurial archetype. Evidence supporting these claims however, remains inconclusive. Nevertheless, the Chapter continues to advocate the importance of personality characteristics, background factors and capabilities of the entrepreneur in achieving small business growth. The Chapter argues that whilst existing methods at best only provide modest to weak associations between various characteristics and performance, these attributes essentially manifest themselves in the strategic decision-making of the firm. It is proposed that the personality traits and competencies of the owner-manager influence environmental perception. This, in turn, continually shapes the primary objective of the firm and determines the range of opportunities available to the firm. This Chapter therefore concludes that the personal attributes, skills, knowledge and motivation of the owner-management team have an important influence upon the strategic decision-making process and subsequent direction and scope of the small firm.

3.1 The Entrepreneur – An Overview

The term entrepreneur has continuously attracted considerable academic attention ever since Cantillon (1755) and Say (1816) first acknowledged the pivotal role of the entrepreneur in providing a catalyst for economic change and development in terms of innovation, wealth and employment creation. Historically, the search for a suitable definition has manifested itself within many differing fields of study and it is surprising that although a plethora of literature exists defining the characteristics, personality traits and activities of the entrepreneur, academia has yet to provide an acceptable definition or archetype (Carsud et al 1985, Gartner 1985, 1989; Bygrave 1993; Herron and Robinson 1993).

Interdisciplinary conflict, inconclusive evidence of practical significance (Sexton and Bowman 1984; Begley and Boyd 1987) and methodological discrepancies (Sexton and Bowman 1984) have all been cited as primary sources of disharmony which have ensured that an agreed definition remains elusive (Carsud et al 1986; Sexton and Simlor 1985; Wortman 1985; Gartner 1989; Herron and Robinson 1993). As a result there is no single definition that can be consistently applied to entrepreneurial research and it is argued that by ignoring the advancements of other disciplines differing schools of thought have simply participated in the process of 'reinventing the wheel' (Wortman 1985; Dewhurst 1996). Moreover, Dewhurst (1996) contend that recent definitions have merely been successful in rephrasing existing definitions and Kilby (1971) went as far to suggest that the consuming search for the entrepreneurial entity was reminiscent of the quest to find the mythological 'heffalump'.

The importance of the Small and Medium Enterprise (SME) to the economy in terms of employment, output and innovation however, has enabled the search for an entrepreneurial definition to be sustained. This continuation has been fuelled by the belief that the performance of the small firm is directly influenced by the characteristics and behaviour of the entrepreneur (Sandberg 1986; Stanworth and Curran 1976; Slevin and Covin 1990; Herron and Robinson 1993; Kotey and Meredith 1997). In fact, evidence suggests that the small firm is primarily an extension of its founder (Penrose 1995; Mintzberg and Quinn 1988; O'Farrell and Hitchens 1988; Chandler and Jansen 1992; Kotey and Meredith 1997). Moreover, the small firm is essentially an amalgamation of the entrepreneur's talents, knowledge and capabilities (Stanworth and Curran 1976; Burns and Harrison 1996) whilst the purpose of the firm is determined by the values and goals of the owner-manager (Bamberger 1983; O'Farrell and Hitchens 1988). It is therefore contended that within the confines that constitute the boundaries of the small firm, the entrepreneur is the principal stakeholder and consequently decisions made by the founder can rarely be overridden (Beaver and Jennings 1995; Jennings and Beaver 1997; Dyer 1997). The owner-manager is the centre of all enterprise behaviour in the firm (Slevin and Covin 1990) exerting a considerable influence upon the organisational style, culture and direction of the small firm (Kets de Vries 1977; Churchill and Lewis 1983; Schein 1985; Stanworth and Curran 1976; Dyer 1997). The direction of the firm is essentially determined by the entrepreneur's perception of opportunities presented by the environment (Penrose 1995) and it is maintained that the ability and motivation of the entrepreneur is critical to small firm survival in the elementary stages of venture development (Churchill and Lewis 1983; Tether 1997). In the later stages of firm development, the owner-manager continues to exert a strong influence upon the growth trajectory of the venture and it is maintained that subsequent growth is determined by the extent to which the entrepreneur allows accumulated expertise to contribute to the decision-making process (Churchill and Lewis 1983; Scott and Bruce 1987; Dodge and Robbins 1992; Penrose 1995).

The study of entrepreneurship and growth has been approached from an economic, trait, behavioural and managerial perspective. Whilst there is little doubt that these perspectives have made a notable contribution to the understanding of entrepreneurship and the factors that allow small firms to grow, differing disciplinary bias (Begley and Boyd 1987), problems of definition (Gartner 1989; Gartner 1989; Chell et al 1991) and the existence of firm heterogeneity (Penrose 1995) have ensured that this cognition has remained largely descriptive and context dependent (Herron and Robinson 1993). In other words, a comprehensive understanding of what factors are conducive to small firm growth has been impeded by the fact that the small business sector can not be viewed as one homogeneous grouping both in terms of definition and the methods required to adequately explore the phenomenon of growth. It is also important to recognise that although the entrepreneur is instrumental to small business growth (Gibb and Davies 1990; Storey 1994; Smallbone et al 1995), the process of growth cannot be construed as automatic (O'Farrell and Hitchens 1988; Jennings and Beaver 1997). Given the volatility of the small business environment and the fact that the personal aspirations of the founder often limit the overall size of the firm, it is perhaps unsurprising that the majority of small firms are unable or unwilling to entertain the notion of growth (Ket de Vries 1977; Schein 1985; O'Farrell and Hitchens 1988; Burns and Harrison 1996). Despite these limitations, the analysis of growth cannot preclude the entrepreneur. Evidence which supports claims that only a small percentage of small ventures actually achieve notable growth, even in times when macro-economic conditions are considered favourable strongly suggests that the entrepreneur exerts a strong influence upon the strategic objectives, direction and scope of the firm. Thus, it can be surmised that growth oriented entrepreneurs are a special entity and cannot be excluded from the analysis of firm performance and growth (Herron and Robinson 1993). Instead, the owner-management team should remain the integral focus of research into the entrepreneurial process and small firm growth especially in terms of how owner-managers either facilitate or constrain venture development[1].

3.2 Defining the Role of the Entrepreneur

Prior to the revelations of Cantillon (1755) and Say (1816), acknowledging the instrumental role of the entrepreneur in promoting economic change and development, the entrepreneur was seen as a co-ordinator of different factors of productions with no special attributes or significance in terms of economic growth and development (Storey 1994). The entrepreneur, viewed from a traditional economic perspective, is essentially opportunity driven and is best described as a person who is capable of using different combinations of resources to innovate and exploit market opportunities (Hebert and Link 1988; Hart et al 1995). Today, regardless of how entrepreneurship should properly be defined and operationalised, it is commonly acknowledged that the entrepreneurial function is a vital component of a market economy (Batstone and Pheby 1996). In an economic context, theories pertaining to the nature of the entrepreneurial process can be categorised as either being static or dynamic (Hebert and Link 1988). Static conceptions include the notions of ownership, employing the factors of production and management whereas dynamic variants paint the entrepreneur as a risk taker, an innovator, a decision maker and an organiser and co-ordinator of scarce resources (Hebert and Link 1988).

It is suggested that entrepreneurs adopt an intermediary role between customer and supplier in order to profit from opportunities presented by the environment (Kirzner 1979; Lambing and Kuehl 1997). The realisation of these opportunities that continuously emanate from the environment is determined by the ability of the entrepreneur to facilitate the process of exchange through the utilisation of additional knowledge and specific skills (Deakins 1996). The nature of the intermediary function implies that resource ownership is not a prerequisite of entrepreneurship (Kirzner 1979). In fact, it is contended that the entrepreneurial process involves the pursuit of market opportunities irrespective of resource ownership (Stevenson 1985; Stevenson and Jarillo-Mossi 1986; Kao 1989).

[1] Note: This Chapter uses the terms owner-manager and entrepreneur interchangeably and makes no distinction between them apart from a brief discussion in section 3.3.4 when discussing the work of Carland et al (1984). For the purposes of the research an entrepreneurial/owner-manager definition is proposed in Chapter 5, section 5.1.2.

This position however, is disputed in the literature. The exploitation of an opportunity is essentially dependent upon the entrepreneur's ability to reallocate resources, utilising existing skills, knowledge and experience and therefore it is argued that the entrepreneur must possess a certain degree of control over scarce resources in order to realise an opportunity (Casson 1982; Hart et al 1995). Furthermore, it is also recognised that the resources choices made by the entrepreneur during the inception of a new venture can have a significant effect upon firm performance and the ultimate success of an enterprise (Hart et al 1995).

Traditional economics characterises the entrepreneur as a rational profit maximiser (Stanworth and Curran 1976). Profit maximisation however, is not considered to be the primary motivation for new venture creation (Alchian 1950; d'Amboise and Muldowney 1988). Instead, it is contended that entrepreneurial profit[2] is inextricably linked to the motivations that surround the concept of profit satisficing (d'Amboise and Muldowney 1988). It is also reported that small firms often achieve performance levels that do not comply with the expectations of classical management theory due to the irrational decision-making process of the entrepreneur (Jennings and Beaver 1997). Furthermore, the ability to maximise profits is determined by the entrepreneur's perception of the environment (Penrose 1995; O'Farrell and Hitchens 1988). This perception is, in turn, constrained by the extent to which environmental information can be utilised by the firm to engender sufficient profits to satisfy the needs of the entrepreneur and other stakeholders (Stanworth and Curran 1976; O'Farrell and Hitchens 1988). Thus, the decisions made by the entrepreneur as to how resources are allocated, in response to environmental perceptions, determine the extent to which the firm can enjoy superior performance[3].

Despite the desire to satisfy a range of complex needs such as power, status, social acceptance and competitive achievement, it is suggested that the attainment of these objectives can be associated with the ability to generate positive profits (Penrose 1995).

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[2] Note : The term entrepreneurial profit is used in this context to denote the reward gained from the perceived value created by the entrepreneur in terms of a given market or industry (see Drucker 1985; Herron and Robinson 1993).

[3] Note: Entrepreneurial perception and preferences are key concepts developed in this thesis. These concepts are re-introduced in Chapter 5, sections 5.1.2 and 5.1.3 in the construction of the conceptual framework.

In this context, it can be contended that the accumulation of positive profits is a necessary ingredient of small firm growth and expansion (Penrose 1995).

Schumpeter (1934) established the entrepreneur as an innovator and he concluded that the process of entrepreneurship involved the reorganisation of production through innovation and the introduction of new revolutionary technologies. Consequently, the entrepreneur can be construed as a special entity that initiates and manages the reallocation of resources in order to gain competitive advantage through value creation (Herron and Robinson 1993). In this sense, it is suggested that the entrepreneurial process operates outside existing business practice, creating new contexts through innovation that significantly reduce or destroy the value of existing routines and experiences (Schumpeter 1934; Gartner 1989; Czariawska-Joerges and Wolff 1991).

The entrepreneur participates in the process of exchange for profit using personal attributes, knowledge and skills to negate the effects of uncertainty (Cantillon 1755; Knight 1921; Hull et al 1980; Stanworth and Gray 1991). Uncertainty, within this context, arises due to the existence of imperfect foresight and a fundamental inability to provide optimal solutions to complex problems presented by the environment (Alchian 1950). It is therefore maintained that the process of entrepreneurship involves an element of risk (Meredith et al 1982; Hodgson 1995; Deakins 1996; Kuratko and Hodgetts 1998) and that the opportunity for profit is provided by environmental uncertainty (Knight 1921). In fact, Knight (1921) contends that if environmental change could be consistently predicted then opportunities for entrepreneurial profit would be severely limited. Knight (1921) however, made an important distinction between risk and uncertainty, arguing that no probabilistic value, in terms of possible outcome, could be assigned to environmental uncertainty[4]. Hence, whereas risk can be measured to some relevant degree, uncertainty to all extents and purposes is uninsurable.

[4] Note: The nature of probability is important in understanding Knight's concept of risk and uncertainty. Using the traditional economic perspective as a frame of reference, the entrepreneur can be viewed in terms of bringing new combinations of resources to the market. The interactions of these combinations with the environment are not known with any certainty and the decision to proceed cannot be reached by analysing the probability of possible outcomes. Therefore, the lack of any existing precedent constitutes the acceptance of an uninsurable risk by the entrepreneur in regard to the exploitation of an opportunity provided by environmental uncertainty.

Uncertainty also determines the nature of entrepreneurial activity. The decision to assume the risk of developing an entrepreneurial venture is dependent upon the perception and judgement of the entrepreneur (Cantillon 1755; Knight 1921: Casson 1982; Drucker 1985, 1992; Lambing and Kuehl 1997). The distribution of these attributes however, is not uniform (Penrose 1995). Instead, the perception of opportunities provided by the environment, through uncertainty and the perceived capabilities of the firm, have a significant effect upon the entrepreneur's decision-making process (Penrose 1995; Jennings and Beaver 1997). The limitations associated with small business management provide that entrepreneurial perception is often distorted by the experience, conceptions and knowledge of the entrepreneur (O'Farrell and Hitchens 1988). Moreover, it is argued that increasing uncertainty inhibits the environmental scanning activities of the entrepreneur and hence, constrains performance and subsequent growth (Mohan-Neil 1995; Lang et al 1997). Conversely, traditional views of entrepreneurship maintain that the existence of uncertainty enables the entrepreneur to exert considerable influence upon the environment through innovation (Schumpeter 1934). In this sense, it is argued that the opportunities for entrepreneurial firm growth primarily exist during periods of instability and change when larger organisations operate strategies of retrenchment and disinvestment (Thompson 1993). In these circumstances however, it is contended that uncertainty provokes certain modes of behaviour, which tend towards consolidation and imitation rather than innovation and growth (Alchian 1950). In fact, Alchian (1950) argued that the adoption of such strategies essentially affords the entrepreneur relief from conscious decision-making, suggesting instead that during periods of increased uncertainty, entrepreneurial profit is only acquired by the most fortunate and venturesome rather than the most rational or logical. Furthermore, the effect of environmental uncertainty upon entrepreneurial behaviour provides a rationalisation for the transient nature of entrepreneurship (Schumpeter 1934) and offers an explanation as to why small business growth is often discontinuous and reactive (Gibb and Dyson 1984; O'Farrell and Hitchens 1988; Jennings and Beaver 1997).

Despite the purported effect of entrepreneurial activity upon the environment, it is argued that the performance of the small firm is actually determined by the entrepreneur's perception of the environment (Penrose 1995; Gibb and Scott 1985; Kao 1989; Porter 1990; Slevin and Covin 1990). The environment defines the market and the value of products and services offered whilst the entrepreneur provides the motivation and governance of the firm. In this sense, the environment can be construed as an image created by the entrepreneurial mind (Penrose 1995; Shackle 1966; Batstone and Pheby 1996). From these images, which are distorted by certain socio-psychological factors, the entrepreneur makes judgements concerning the nature of the environment (Penrose 1995). These decisions constitute the strategic direction of the firm and the environment becomes the mechanism by which strategic decisions of the entrepreneur are evaluated in terms of success and failure (Penrose 1995; Casson 1982; Lambing and Kuehl 1997). Given the complexity of the environment faced by a human decision maker, it is perhaps unsurprising that a gap exists between the collective cognitive competence of a firm and the difficulty of the decision faced (Kelm 1998). In a complex environment, rational optimisation cannot realistically govern decision-making. Instead, it is submitted that in reality only a very few of all the possible alternatives are ever considered as the decision-making capabilities of an individual or team are severely constrained by the human capacity to process information (Simon 1979; Kelm 1998). This constraint is often referred to as the concept of 'bounded rationality' which acknowledges that rational choice is constrained by the cognitive limitations of the decision maker (Simon 1979). Thus, it is reasonable to assume that bounded rationality is akin to entrepreneurial perception and it is this image that determines the range of alternatives available to the small firm (Penrose 1995; Batstone and Pheby 1996; Kelm 1998). In fact, in many ways it is the act of decision-making that distinguishes entrepreneurs from those who collaborate with them in the production process (Shackle 1966; Batstone and Pheby 1996).

It is therefore contended that small firm behaviour and the likelihood of success cannot be adequately explained by merely analysing the nature of the environment (Penrose 1995). Instead, it can be concluded that the environment essentially adopts two roles in relation to small firm performance. The central role of the environment is to provide the entrepreneur with a series of perceived opportunities which can be exploited subject to the managerial limits placed on the firm and the availability of complementary resources (Penrose 1995). The environment however, also determines the relevance and total value of the strategic decisions made by the entrepreneur in terms of actual performance (Alchian 1950). Consequently, if the small firm and the entrepreneur are indistinguishable (Penrose 1995; Mintzberg and Quinn 1988; O'Farrell and Hitchens 1988; Chandler and Jansen 1992; Kotey and Meredith 1997) then the comprehension of small firm growth is dependent upon understanding the effect of external and internal environmental variables on the entrepreneurial decision-making process (Sandberg 1986; Porter 1990; Herron and Robinson 1993; Jennings and Beaver 1997). Moreover, on closer examination, concepts which define the entrepreneur in terms of risk taking, innovation and the allocation of resources are all dependent upon decisions being made (Batstone and Pheby 1996). As a means of illustration, a recent study by Gasse (1998) examining the effect of entrepreneurial competencies on growth in 63 Canadian SMEs, found that 90% of entrepreneurs admitted to relying more on their perception and intuition than on calculation and statistical evidence. Consequently, it is also necessary to examine the relationships between the personal characteristics, experience, knowledge, skills and motivations of the entrepreneur in determining the strategic direction and subsequent performance of the small firm (Herron and Robinson 1993; Kotey and Meredith 1997).

3.3 Entrepreneurial Influence and Small Firm Growth

The existence of profitable opportunities is determined by the entrepreneur's perception of the environment (Penrose 1995). This perception however, is not considered to be objective but instead, distorted by the characteristics, motivations, personal values, abilities and knowledge of the owner-manager (Herron and Robinson 1993; Burns and Harrison 1996; Kotey and Meredith 1997). Furthermore, it is contended that these factors combined with the capabilities of the entrepreneurial firm and the nature of the environment are instrumental to sustaining small firm growth (Churchill and Lewis 1983; Mullins 1994). Moreover, it is argued that the success of the small firm is dependent upon the entrepreneur more than any other contributing factor (Sandberg 1986; Herron and Robinson 1993). It is therefore necessary to consider the effects of the entrepreneur on firm performance and the extent to which socio-psychological factors facilitate or constrain the growth of the small firm (Penrose 1995; Begley and Boyd 1987; Herron and Robinson 1993).

Chapter two proposed that existing research tends to concentrate upon individualism (Chandler and Hanks 1998). In this sense, research has attempted to identify the characteristics of an individual rather than the traits and experience of top management teams (Sexton and Bowman 1986; Sandberg and Hofer 1987; Chandler and Hanks 1998). Contemporary research however, has expanded its boundaries to incorporate the characteristics and competencies of entrepreneurial teams. These studies have investigated a wide range of issues but in general terms advocate the premise that team founded ventures are more likely to succeed than firms established by an individual (Chandler and Hanks 1998). Consequently, whilst the following review tends to refer to individual characteristics it is acknowledged that these attributes can be equally applied across an owner-management team.

3.3.1 The Characteristics of the Entrepreneur and Growth

It is purported that entrepreneurs who entertain and realise small business growth share a number of common personality characteristics (Sexton and Bowman 1984; Begley and Boyd 1987). The trait approach contends that the possession of certain key attributes differentiate the growth oriented entrepreneur from the general population, thus limiting the range of people who can participate in the process of entrepreneurship and growth (Deakins 1996). In fact, the belief that the firm and the entrepreneur are indistinguishable (Bamberger 1983; O'Farrell and Hitchens 1988; Herron and Robinson 1993; Bamberger et al 1994; Kotey and Meredith 1997) has ensured that a considerable amount of literature exists, linking the characteristics of the entrepreneur to the growth of the small firm (Churchill and Lewis 1983; Begley and Boyd 1987). Moreover, it is argued that the personality traits and values of the founder have a significant impact upon the strategic decisions and subsequent performance of the small firm (Kets de Vries 1977; Chandler and Jansen 1992; Herron and Robinson 1993; Kotey and Meredith 1997).

The diversity of characteristics identified in the literature associated with the phenomenon of small business growth include the need for achievement, a high internal locus of control, a commitment to making things happen, confidence in personal judgement, a desire to exploit opportunities, the propensity to undertake risk and the tolerance of uncertainty (McCelland 1961; Carland et al 1984; Gartner 1985; Timmons 1985; Begley and Boyd 1987; d'Amboise and Muldowney 1988 Deakins 1996; Gibb 1996; Kotey and Meredith 1997; Lambing and Kuehl 1997). It is evident that the literature cataloguing the range of entrepreneurial characteristics is extensive. In fact Churchill and Lewis (1983) contend that;

"More empirical studies have been carried out on entrepreneurial characteristics than almost any other kind." (p.30)

A review of the existing literature however, highlights that the need for achievement, the willingness to undertake risk, the need for an internal locus of control, the tolerance of ambiguity and the desire to exploit opportunities, are consistently cited as being the key attributes associated with small firm performance and growth (Begley and Boyd 1987) and require extrapolation.

The entrepreneurial archetype possesses a high need for achievement (McCelland 1961; Begley and Boyd 1987; d'Amboise and Muldowney 1988; O'Farrell and Hitchens 1988; Kotey and Meredith 1997). The need for achievement provides the entrepreneur with the motivation and energy to succeed and ensures that the individual accrues intrinsic satisfaction in addition to the financial rewards associated with the entrepreneurial process (Deakins 1996). Moreover, the need for achievement is considered to be the central trait of the entrepreneurial personality and manifests itself in the form of a number of peripheral attributes such as the desire for independence and personal autonomy (Deakins 1996). Enterprise is related to ambition (Penrose 1995) and it is also contended that entrepreneurs who have a high achievement motivation strive to meet challenging goals and continually utilise performance as a measure of accomplishment (Timmons 1985; Begley and Boyd 1987). Furthermore, it is maintained that growth oriented entrepreneurs constantly compete against themselves to transcend prior performance (Begley and Boyd 1987). Evidence linking the need for achievement to the performance of the small firm however, is not considered to be conclusive. In fact, Begley and Boyd (1987) submit that the achievement motivation of the entrepreneur may only be significant in the early stages of small business development and hence cannot be generalised to sustained small firm growth. Despite the existence of ambiguity as to the association between small firm performance and the need for achievement, it is argued that a positive correlation exists between the entrepreneur's need for achievement and the growth rate of the small firm (Smith and Miner 1983; d'Amboise and Muldowney 1988). Consequently, it is apparent that further research is required to establish the extent to which the need for achievement motivation effects the subsequent performance and growth of the small firm (O'Farrell and Hitchens 1988).

Small firm growth is also associated with the founder's need for a high internal locus of control (Brockhaus 1982; Stevenson 1985; Timmons 1985; Begley and Boyd 1987; Lambing and Kuehl 1997). An internal locus of control essentially provides the entrepreneur with the perception that the strategic behaviour of the small firm can positively influence the nature of the environment (Begley and Boyd 1987). In this sense, it is suggested that individuals possessing a high internal locus of control believe that the efficacy of personal judgement determines the performance of the firm and not the existence of luck, fate or destiny (Brockhaus 1982; Begley and Boyd 1987). Furthermore, it is recognised that the existence of an internal locus of control is consistent with a high achievement motivation (Rotter and Hochreich 1976) and the innovative firm (Miller and Friesen 1984). The existence of a high internal locus of control however, is not always conducive to small business growth. The founder's need to control the direction of the firm is often considered to be detrimental to growth and it is argued that sustained small firm growth is often dependent upon the founder's ability to embrace the concepts of formality and professional management (Burns and Harrison 1996; Dyer 1997). Moreover, an internal locus of control is inextricably linked to the entrepreneur's perception of the environment and therefore performance relies upon the extent to which the environment adopts the strategic behaviour of the firm (Alchian 1950; Penrose 1995).

The propensity to take risk is seen as a key attribute of the entrepreneur (McCelland 1961; Timmons 1985; Begley and Boyd 1987; Deakins 1996; Lambing and Kuehl 1997). The acceptance and management of risk implies that the entrepreneurial archetype possesses a tolerance for ambiguity, enabling the entrepreneur to operate effective strategies despite the existence of uncertainty (Knight 1921; Hebert and Link 1988; Chell et al 1991). It is contended that successful entrepreneurs utilise knowledge to negate the effects of uncertainty and generate profit (Kirzner 1979). Furthermore, it is suggested that growth oriented entrepreneurs have the capacity to accurately interpret the environment and thus minimise risk (Begley and Boyd 1987). Moreover, the ability to undertake risk and tolerate disequilibrium is considered to be a key entrepreneurial competence (Hodgson 1995). The willingness to entertain risk however, is not specific to the entrepreneurial personality. In this sense, it is argued that an individual's self efficacy for decision-making determines the extent of the risk undertaken (Krueger and Dickson

1994) and it is for this reason that risk taking is also considered to characterise the innovative manager (Brockhaus and Horwitz 1985; Drucker 1985).

The decision to initiate growth strategies is also determined by the entrepreneur's willingness to entertain further risk (Mullins 1994). The nature of the entrepreneurial firm provides that any attempt to realise small firm growth is frequently constrained by unfavourable market forces (Schumpeter 1950; Alchian 1950; Penrose 1995; O'Farrell and Hitchens 1988) and an inherent lack of complementary resources and skills (Mullins 1994). Consequently, the desire to undertake expansion often diminishes once the owner-manager has established an asset base to protect and maintain (Begley and Boyd 1987). Moreover, it is argued that the propensity to undertake risk reduces as the net worth of the firm increases (Timmons 1985; Begley and Boyd 1987) and that risk avoidance is prevalent in high growth firms (Smith and Miner 1983; d'Amboise and Muldowney 1988).

The performance of the small firm can also influence the extent to which the entrepreneur is willing to entertain risk. Entrepreneurs who have experienced good fortune due to an element of luck may be encouraged to undertake further risk (Mullins 1994) whereas entrepreneurs who have experienced substantial losses may subsequently opt for strategies that are essentially risk averse (Mullins 1994). This entrepreneurial behaviour however, cannot be generalised. Instead, it is recognised that poor performance can stimulate responsive change and the willingness to consider further risks, especially in circumstances where the entrepreneur possesses an internal locus of control and a high level of competence (Boeker 1989; Dickson 1992; Mullins 1994). In addition, entrepreneurs that enjoy superior performance can become complacent and this misplaced confidence can often have a detrimental effect on the ultimate growth rate of the small firm (Hedberg et al 1976; Mullins 1994). It is evident therefore that derision exists pertaining to whether risk taking is related to the entrepreneurial decision-making process or success (Brockhaus 1982; Begley and Boyd 1987). Furthermore, it is purported that the propensity to undertake risk may only be significant during small business inception (Begley and Boyd 1987) and that the entrepreneur should be construed as an incrementalist rather than an innate risk taker (Gibb and Scott 1985). Nevertheless, it is important to acknowledge the effect of risk on the strategic decision-making process of the entrepreneur (Kets de Vries 1977; Mintzberg and Waters 1982;

Herron and Robinson 1993). It is also interesting to note that the concept of risk establishes an affiliation between traditional economic and trait approaches in defining entrepreneurship and small firm growth.

The perception of opportunity and innovation are also key attributes of the growth oriented entrepreneur (Schumpeter 1934; Smith 1967; Carland et al 1984; Timmons 1985; Drucker 1985, 1992; Hebert and Link 1988; Chell et al 1991; Hart et al 1995). Opportunity recognition however, does not necessarily constitute small firm growth. Instead it is important to acknowledge that whilst entrepreneurial perception dictates the range of opportunities that a firm can pursue (Penrose 1995), the performance of an enterprise is primarily dependent upon the ability of the entrepreneur to develop and exploit the opportunity (Baum 1995). Furthermore, it is maintained that the ability to scan the environment and exploit opportunities depicts the classic role of the entrepreneur in the economy (Mintzberg and Waters 1982). In fact, Drucker (1985) contends that it is the exploitation of an opportunity that essentially establishes an individual as an entrepreneur. Moreover, it is suggested that there is an inextricable link between the need for an internal locus of control and the opportunistic behaviour of the entrepreneur (Smith 1967; Dunkelberg and Cooper 1982; Woo et al 1988). In this sense, it is argued that the pursuit of opportunities is moderated by the entrepreneur's belief that decisions made concerning the nature of the environment will have a direct impact upon the subsequent performance of the firm. It can therefore be established that entrepreneurial expectation is the immediate determinant of small firm behaviour (Penrose 1995) and that the process of growth is directly associated with the opportunism of the owner-manager (Stevenson 1985; Stevenson and Jarillo-Mossi 1986, 1990; d'Amboise and Muldowney 1988: Kao 1989; Brown 1998). Consequently, it can be contended that the performance of the small firm is determined by the opportunity seeking behaviour of the entrepreneur and that the absence of enterprise acts as a significant barrier to growth (Penrose 1995). Furthermore, evidence suggests that the opportunistic behaviour of the entrepreneur often dissipates as the small firm experiences growth (Stevenson 1985; O'Farrell and Hitchens 1988; Storey 1994). It can therefore be concluded that the ability and willingness of the entrepreneur to continually operationalise the ideation process essentially determines the strategic direction and subsequent performance of the small firm.

It has previously been established that the values of the entrepreneur and the firm are indistinguishable (O'Farrell and Hitchens 1988). In fact, it is maintained that core personal values exert a considerable influence upon the attitudes, motivation and behaviour of the entrepreneur (Bamberger 1983; Herron and Robinson 1993; Kotey and Meredith 1997). The values of the entrepreneur have a significant effect upon the decision-making process (Bamberger 1983). In this context, personal values not only determine the strategic direction of the firm in terms of the pursuit of opportunities but also influence the structure and management style of the small business venture (Bamberger 1983; Kotey and Meredith 1997). Moreover, it is purported that these decisions, influenced by the personal values of the entrepreneur, effectively limit the maximum rate of expansion that the small firm can achieve at any given moment in time (Penrose 1995). The personal values of an individual remain constant over time (Bandura 1986) and it is argued that whilst the attitudes of the entrepreneur may change over time, these attitudes are essentially derived from a combination of finite personal values (Kotey and Meredith 1997). Previous research has indicated that the core personal values of the classical entrepreneurial archetype are ambition, achievement, innovation, recognition and growth (Silver 1988 quoted in Kotey and Meredith 1997). Furthermore, research by Kotey and Meredith (1997) established an empirical link between the personal values of the entrepreneur and the strategy and performance of the small firm, contending that core entrepreneurial values are primarily associated with entrepreneurs who utilise proactive strategies to achieve superior performance (Gibb and Davies 1990; Dyer 1997). Consequently, it can be surmised that the fundamental relationship which exists between the core personal values of the entrepreneur and the strategic behaviour of the firm should be integrated into the analysis of small firm growth and development.

The growth of the small firm is governed by the motivations of the owner-manager (Penrose 1995; Gartner et al 1992; Burns and Harrison 1996; Baum 1995). Entrepreneurial motivation manifests itself in the goals, objectives and self-efficacy of the founder, which directly influence the strategic behaviour of the firm (Bird 1989; Baum 1995). The motivation to succeed is analogous with entrepreneurial behaviour and small firm performance (Barkham 1992; Gartner et al 1992) and it is purported that the motives of the entrepreneur to seek self employment have a significant impact upon the success of a small business venture (Carter 1992; Beaver and Jennings 1995)[5]. Moreover, it is contended that there is a relationship between the motivation of the owner-manager to realise entrepreneurial vision and the performance of the small firm (Bennis and Nanus 1985; Filion 1991; Collins and Lazier 1992, 1995; Baum 1995). It is also argued that entrepreneurial motivation enables the owner-manager to circumvent certain barriers to growth including a myriad of socio-psychological costs associated with the phenomenon of small business growth (Burns and Harrison 1996).

Performance is considered to be a multiplicative function of motivation and ability (Maier 1965; Herron and Robinson 1993) and it is a combination of these factors that essentially limit the activities undertaken by the entrepreneurial firm (Mintzberg and Waters 1982). Furthermore, it is maintained that the motivation of the small firm is not only derived from the entrepreneur's evaluation of prior performance but also the expectation of subsequent behaviour (Penrose 1995; Herron and Robinson 1993; Kuratko and Hodgetts 1998). The nature of the entrepreneurial firm however, provides that the motivation of the entrepreneur to pursue further growth is often inhibited by other factors such as the need for control (Burns and Harrison 1996). Moreover, Burns and Harrison (1996) suggest that the simultaneous management of control and success is a concept that is not easily adopted by the average entrepreneurial archetype[6]. It is therefore reasonable to conclude that the sustained performance and growth of the small firm is ultimately dependent upon the continued commitment perseverance, opportunity orientation and drive of the entrepreneur (Smallbone et al 1995; Kuratko and Hodgetts 1998): characteristics that are all synonymous with motivation (Kuratko et al 1997).

[5] Note: It is important to highlight that the research by Carter (1992) was primarily based upon the motivations of female entrepreneurs and although literature exists arguing that motivational forces are consistent across gender (Beaver and Jennings 1995) subsequent evidence has since indicated that there are in fact fundamental differences across gender in terms of motivation (Deakins 1996; Muir 1998).

[6] Note: The issues and concepts surrounding management development in small firms are discussed in Chapter 4.

3.3.2 The Background of the Entrepreneur and Small Firm Growth

It is also argued that the activities of the entrepreneur originate from a variety of background influences. Historically, literature portrays the entrepreneurial archetype as a deviant or marginal character who is driven to creating a small business venture due to an inability to fit into the conventional employment structure (Kets de Vries 1977; Deakins 1996). In this sense, it is maintained that the entrepreneur is unable to effectively manage the wide range of dominant and submissive roles that are associated with the nature of the employment (Burns and Dewhurst 1996). In fact, Collins et al (1964) submit that;

> *'Entrepreneurs are men who have failed in the traditional and highly structured roles available to them in society. In this, we have seen, entrepreneurs are not unique. What is unique about them is that they have found an outlet for their creativity by making out of an undifferentiated mass of circumstances a creation uniquely their own: a business platform' (p.37)*

Furthermore, it is contended that negative experiences endured during childhood have a significant effect upon the decision to entertain entrepreneurship and that certain characteristics are essentially shaped by the need of the entrepreneur to establish psychological defences to minimise these antagonistic forces (Kets de Vries 1977). The proposition that the entrepreneur is a deviant personality however, has since been superseded by evidence which suggests that external factors such as unemployment and the structural realignment of the economy provide more suitable explanations concerning small firm creation and entrepreneurship (Storey 1994). Nevertheless, it is important to acknowledge that certain background factors have a significant impact upon the strategic decision-making process of the entrepreneur and subsequently the performance of the small firm (Stanworth and Curran 1976).

Storey (1994) in his extensive review of growth literature pertaining to the background characteristics of the entrepreneur surmised that entrepreneurs who had been attracted by market opportunities were more likely to establish high growth companies compared with owner-managers who had been forced into entrepreneurship by redundancy or unemployment. In addition, the review reported that individuals with higher levels of education and those who possessed previous management experience were also more inclined to start rapid growth organisations. In their studies of fast growth firms in

Ireland, both Kinsella et al (1994) and Barkham et al (1996) supported the observations made by Storey (1994). The study by Kinsella et al (1994) also reported that growth oriented entrepreneurs tended to be male, aged between 35-44, possessed some form of private sector experience in a small company and had previously occupied a role at management level. Similarly, Barkham et al (1996) submitted that founders of fast growth firms tended to be younger than their matched firm counterparts and enjoyed membership of a professional organisation.

All three of these commentators agreed that fast growing firms were more likely to be formed and operated by a team rather than a single individual (Storey 1994; Kinsella et 1994; Barkham et al 1996). It is also proposed that the age and size of the owner-management team are positively correlated to small firm growth (Weinzimmer 1997). Teach et al (1986) discovered a positive relationship between new venture performance in high technology firms and the size of the owner-management team. Moreover, Ginn and Sexton (1990) found that successful growth companies were more likely to be operated by owner-managers who actively sought to augment the size of the decision-making team. In contrast, age is considered to be negatively associated with growth. Hambrick and Mason (1984) suggest that older owner-managers are more conservative, opting for security and strategies that protect assets that are important for retirement. They also contend that younger owner-managers are less risk adverse as their enthusiasm often acts as a catalyst for growth.

Nevertheless, it is reported that no conclusive relationship exists between certain demographic[7] influences and the entrepreneurial archetype (Chandler and Hanks 1994). In fact, Storey (1994) by his own admission, concluded that although he had identified fifteen possible background factors that had been examined in previous studies, their impact upon performance to all intents and purposes were limited. Furthermore, it is argued that there is no one correct combination of background factors which can be consistently applied to the concept of small business growth (Beaver and Jennings 1995). Despite the apparent dearth of evidence linking the background factors of the entrepreneur to the performance of the firm it is suggested that certain factors may offer useful insights into the decision-making process (Beaver and Jennings 1995). For

[7] Note: These demographic factors include age (Barkham et al 1996), gender and education (see Storey 1994; Lambing and Kuehl 1997).

example, it is contended that whilst entrepreneurship is fundamentally an experiential process (Gibb 1996) and that small business performance ultimately involves an element of good fortune (Alchian 1950), the escalating complexity of the business environment provides that the educational background of the entrepreneur is becomingly increasingly important to entrepreneurial success (Stanworth and Gray 1991; Chandler and Jansen 1992; Lambing and Kuehl 1997). In fact, it is maintained that the background experience and knowledge of the entrepreneur are important determinants of small firm performance and growth (Penrose 1995; Gibb and Dyson 1984; O'Farrell and Hitchens 1988).

The managerial, financial and marketing capabilities of the entrepreneur are also instrumental to the success of the high growth firm (Tether 1997; Gasse 1998). Tether (1997) argues that in addition to these management and marketing competencies, firms lacking prior technological depth are unlikely to achieve growth and are more likely to fail. The importance of these factors to the performance of the small firm is particularly conspicuous in the high technology sector where it is purported that the phenomenon of small business growth is commonplace. The lack of prior management experience is considered to be a serious barrier to small firm growth and it is contended that the inability to cope with growth is primarily derived from this deficiency (Gibb and Dyson 1984; O'Farrell and Hitchens 1988; Beaver and Jennings 1995). Moreover, Chandler and Jansen (1992) suggest that high growth is associated with the entrepreneurial, technical and managerial competence of the founder. The findings of this research however, centre around a self analysis methodology and hence, ambiguity exists as to whether these competencies are present prior to business start up or develop as a result of entrepreneurial success (Chandler and Jansen 1992). Despite these limitations, the research states that previous education and general management experience are factors that commonly exist prior to inception and thus may provide sufficient evidence of cause and effect (Chandler and Jansen 1992).

There is also an emerging body of literature that acknowledges that in addition to technical and managerial skills, entrepreneurs of successful ventures are competent in the ability to maintain a wide range of personal and business relationships (Markman and Baron 1998). Entrepreneurial success often relies on the extent to which the entrepreneur can raise capital, generate enthusiasm and commitment in others, develop networks and relationships and establish trust and legitimacy (Aldrich and Fiol 1994). Thus, those individuals or groups of individuals that are socially adept and possess the social dexterity to respond to the moods, desires, temperaments and motivations of others are better placed to acquire the necessary edge required to achieve their own objectives (Markman and Baron 1998). In addition, it follows that the range of skills and experience offered by owner-management teams also influence entrepreneurial success (Weinzimmer 1997). The degree of variance in the skills and experience-set of the top management team is considered an essential determinant of ongoing success. Eisenhardt and Schoonhoven (1990) contend that teams that possess a wide range of industrial experience are more likely to benefit from constructive conflict. This constructive conflict ensures that the decision-making process does not stagnate, allowing differing perspectives and functional expertise to come together so that more balanced decisions can be made concerning a firm's strategic direction. Empirical investigations regarding the impact of industrial and functional heterogeneity upon performance however, are sparse (Weinzimmer 1997). Nonetheless, the importance of constructive conflict to small business growth continues to draw conceptual support from the fact that strategic decisions in small businesses are usually made by a single individual. This decreased potential for constructive conflict suggests that the small firm is less likely to enjoy the benefits associated with functional and industrial heterogeneity. This weakness is further compounded by the fact that many owner-managers are unable to accumulate the necessary industrial and functional acumen or simply unwilling to involve others in the decision-making process (Fry 1993). In fact, Fry (1993) argues that small firms that aspire to grow should be equipped with a formalised and heterogeneous top management team to maximise growth potential. Thus, in these cases the lack of new ideas or an inability to apply a valuable system of checks and balances to the strategic decision-making process greatly reduces a firm's existing capability to sustain growth (Weinzimmer 1997)

The experience that the founders or current owner-managers bring to the business has received considerable attention in the literature from researchers who have attempted to reveal whether previous experience influences success (Reuber and Fischer 1999). Whilst reviews of the current literature reveal that there is no consistent evidence suggesting that there is a direct relationship between experience and performance, practitioners and academics continue to believe that experience is instrumental to small business growth

(Goslin and Barge 1986; Sandberg and Hofer 1987; O'Farrell and Hitchens 1988). Experience can be construed as a quality of an individual or team. This experience consists of the history or background of the owner-manager(s) that has accrued up to a particular point in time. Previous studies examining experience found that expertise does impact performance. Herron and Robinson (1993) argued that the skills and knowledge of the entrepreneur could predict venture performance, whilst research by Chandler and Hanks (1993) discovered a positive relationship between the experience of the founder and firm performance and growth. Moreover, Rueber and Fischer (1994) established that expertise in key areas such as strategic planning, financing and globalisation were more consequential for performance than administrative expertise. Other commentators argue that the experiences of the entrepreneur influence venture performance by shaping a 'dominant logic' through which decisions are filtered (Bettis and Prahalad 1995; Reuber and Fischer 1999). In this sense, it is submitted that the previous experience of the owner-manager dominates the decision-making process especially in the formative stages of small firm development and growth (Chandler and Hanks 1994). Nevertheless, experience can exert both a positive and negative influence upon performance inasmuch as while experience of an industry may enable a firm to enjoy an initial advantage in its industry, this same expertise can subsequently inhibit decision-making in terms of pursuing new alternatives (Reuber and Fischer 1999). The same can be said for homogenous owner-management teams and entrepreneurial teams that possess a dominant personality. It is therefore reasonable to conclude that the background experience of the entrepreneur continues to be an important factor in determining small firm growth as it exerts considerable influence upon the strategic decision-making process in terms of firm direction and scope.

3.3.3 Limitations of the Trait Approach

It has been established that personality traits are stable over time (Bandura 1986) and that certain characteristics and values have a significant impact upon the attitudes, motivation and behaviour of the entrepreneur (Herron and Robinson 1993; Kotey and Meredith 1997). Research however, has yet to determine whether the entrepreneur can be classified as a special person with specific characteristics and skills or that given the right circumstances most people have the potential to behave entrepreneurially (Deakins 1996; Gibb 1996). Furthermore, the lack of an agreed entrepreneurial definition (Gartner 1989; Gibb 1996) resulting from interdisciplinary conflict, methodological discrepancies

(Sexton and Bowman 1984) and the absence of practical significance (Sexton and Bowman 1984; Begley and Boyd 1987) has ensured that the relationship between the characteristics of the entrepreneur and small firm performance has remained inconclusive (Begley and Boyd 1987; Baum 1995). In fact, it is argued that the personality traits identified in the literature share, at best, only a weak empirical relationship with performance (Begley and Boyd 1987; Baum 1995). Moreover, it is maintained that the causal link which exists between the personality traits of the entrepreneur and the performance of the small firm is an unsatisfactory predictor of entrepreneurial success because personality is essentially mediated by motivation and moderated by ability (Hollenback and Whitener 1988; Herron and Robinson 1993). In other words, the growth of the small firm is not solely dependent upon the existence of certain personality characteristics. Instead, it is contended that performance is derived from how these traits interact with the motivations and capabilities of the entrepreneur to form an 'entrepreneurial filter' which determines an individual's perception of the environment and the subsequent strategic behaviour of the firm. Consequently, despite the lack of empirical evidence validating the relationship between the entrepreneurial personality and performance, research continues to support the notion that the growth and development of the small firm is dependent upon the characteristics of the entrepreneur more than any other contributing factor (Sanberg 1986; Herron and Robinson 1993).

It is also purported that most entrepreneurial characteristics can be acquired over time (Timmons 1985). The accumulation of knowledge, skills and experience implies that certain traits such as the need for achievement and an internal locus of control can essentially be attained through the process of experiential learning (Timmons 1985; Deakins 1996). Even the ability to operationalise innovations can be acquired and it is argued that in many cases the entrepreneur is no different from the innovative manager (Drucker 1985, 1992). Moreover, it is alluded that the characteristics associated with the entrepreneurial archetype are synonymous with traits associated with management (Timmons 1985; Deakins 1996) and leadership (Bird 1989; Baum 1995). For example, Brockhaus (1980) and Chell et al (1991) concluded that the need for an internal locus of control did not necessarily distinguish an entrepreneur from a manager but rather a successful entrepreneur from an unsuccessful one. Furthermore, previous research suggests that leadership characteristics[8] which correlate with performance are similar to the traits associated with the growth oriented entrepreneur (Bird 1989; Baum 1995) and it is contended that small firm growth is influenced by the leadership qualities of the entrepreneur (Gibb and Scott 1985). It can therefore be argued that research should avoid the temptation to simply add to an already onerous catalogue of entrepreneurial traits and investigate the effect of the accumulation of knowledge, skills and experience on the growth and development of the small firm (Penrose 1995). Moreover, it is suggested that entrepreneurial research should adopt the methods associated with Mintzberg's (1973) study of managerial behaviour in order to comprehend the process of entrepreneurship and growth (Gartner 1989).

3.3.4 The Entrepreneurial Typology - An Alternative Approach

Contrasting personality characteristics, behavioural responses and background histories have all been instrumental in impeding any attempt to link the performance of the small firm to the personality characteristics of the entrepreneur (Begley and Boyd 1987; Baum 1995; Gibb 1996). Furthermore, it is contended that despite the continued efforts to formulate a universally accepted definition of the entrepreneur, previous research has only been successful in determining that entrepreneurs do not adhere to one, all encompassing archetype (Stanworth and Curran 1976; Woo et al 1988; Kao 1989). As a result academia has endeavoured to address this problem of diversity in the literature by seeking to amalgamate certain personality attributes, values and background factors in order to construct a finite number of entrepreneurial typologies that correspond to certain modes of small firm behaviour and performance. In fact, Woo et al (1988) state that;

> *"In reducing the number of profiles from [a] potentially infinite to a manageable few, typologies contribute to more parsimonious description of entrepreneurs and their behaviour" (p. 165)*

Smith's (1967) study challenged the assumption that entrepreneurs could be viewed as a homogeneous group by developing the typologies of the craftsman and opportunistic

[8] Note: These characteristics include tenacity, positive mood, ambition, goal striving, high energy, self confidence, creativity and status seeking and are derived from leadership studies undertaken by Yukl (1989).

entrepreneur. The craftsman entrepreneur was portrayed as a skilled individual, with a narrow educational background who had essentially become a 'master of a trade' (Smith 1967). Furthermore, the craftsman archetype was construed as being parochial, relying on local markets, personal contacts and reciprocity to sustain business. The craftsman entrepreneur was also considered to be a marginal individual with little awareness or understanding of the social environment and a desire for control. This need for control however, is inconsistent with the concepts associated with the entrepreneurial need for a high internal locus of control (Brockhaus 1982; Stevenson 1985; Timmons 1985; Begley and Boyd 1987; Lambing and Kuehl 1997) but instead, originates from the craftsman entrepreneur's consternation of external control (Smith 1967). Smith (1967) submitted that the craftsman typology related to owner-managers that were paternalistic, strategically inept and resisted growth in order to maintain personal control. Conversely, the opportunistic entrepreneur was growth oriented and had an appreciation of the benefits derived from the process of strategic planning (Smith 1967; d'Amboise and Muldowney 1988). In addition, this archetype was viewed as being formally educated and having a wide range of business skills and experience. Moreover, the opportunistic entrepreneur possessed a high internal locus of control, believing that entrepreneurial activity and innovation could have a significant impact upon the environment and the success of the firm (Smith 1967).

Filley and Aldag (1978) constructed three entrepreneurial typologies based upon the organisational preferences of the entrepreneur. The craftsman firm was considered to be risk averse, inflexible and not conducive to growth. Instead, it was contended that the main purpose of the craftsman firm was to satisfy the needs of the owner-manager. Furthermore, it was argued that the success of the craftsman firm was determined by the extent to which it was adopted by the environment rather than the abilities of the entrepreneur to exploit opportunities through innovative action (Filley and Alldag 1978). The promotional typology was utilised by Filley and Aldag (1978) to describe an autocratic, informal yet essentially transitional organisation. The promotional archetype was viewed as a high growth firm, in which the entrepreneur was often willing to undertake notable risk through the operationalisation of an innovative product or service in order to satisfy personal objectives. In contrast, Filley and Aldag (1978) portrayed the administrative entrepreneurial firm as a formalised and professional entity in which the founder's role was not always critical in determining the direction or performance of the firm. Moreover, it was argued that the administrative firm evolved with the environment, adjusting to change through the processes of strategic planning to achieve concomitant growth (Filley and Aldag 1978).

A study by Dunkelberg and Cooper (1982) concluded that entrepreneurs could be classified into three distinct categories. The first entrepreneurial classification related to individuals who were growth oriented and were essentially equivalent to the opportunistic archetype developed by Smith (1967). The second category of entrepreneurs, labelled as independents, were considered to be motivated by the need for independence and personal autonomy. The final entrepreneurial type presented was that of the craftsman and it is argued that this typology is, in effect, comparable with both Smith's (1967) craftsman entrepreneur. These typologies, however, are not necessarily stable. Instead, it is argued that given changes in certain social and environmental influences, it is possible for an individual to adopt any combination of these types over time (Dunkelberg and Cooper 1982).

Carland et al (1984) developed a controversial typology, arguing that individuals could be categorised as either small business owners or entrepreneurs. The entrepreneurial archetype was construed as an innovative person who utilised strategic management practices in order to operate a firm for the principle purposes of profit and growth. Conversely, the small business owner typology described an individual who establishes a business to provide a primary source of income and further personal objectives (Carland et al 1984). In this sense, Carland et al (1984) argued that small firm is simply an extension of the owner-manager's personality and the business is governed by the availability of resources and various social influences. These typologies however, have been subjected to a considerable amount of criticism. In fact, it is contended that this study, through the utilisation of certain terms, definitions and personality characteristics has merely given rise to further uncertainty in the determination of the entrepreneurial archetype (Gartner 1989). Furthermore, it is maintained that it is possible for the small business owner to have personal goals in terms of profit and growth and hence the distinction made by Carland et al (1984) between the entrepreneur and the small business owner is at best debatable (Gartner 1989).

Stanworth and Curran (1976) employed the concept of latent social identity to develop three entrepreneurial constellations – the artisan, classical and managerial entrepreneur – that could be used to analyse the role of the entrepreneur within the small firm. The artisan identity was closely related to Smith's (1967) craftsman typology, deriving intrinsic satisfaction from personal control. The artisan entrepreneur was also considered to be a marginal individual who had little or no interest in realising small business growth. Stanworth and Curran (1976) however, imply that the artisan typology refers to entrepreneurs that are essentially in the formative stages of entrepreneurship and that it was conceivable for the growth motive to emerge over time in circumstances where the small firm enjoyed sustained profitability. The classical entrepreneurial typology was viewed as being motivated by profit and growth and to all intents and purposes can be compared with the classical economist's view of the entrepreneur (Stanworth and Curran 1976). In contrast, the manager identity was portrayed as an individual whose primary concern was managerial excellence and attaining recognition for the achievement of set goals and objectives (Stanworth and Curran 1976). Despite similarities between the artisan and classical entrepreneur and Smith's (1967) craftsman and opportunistic typologies it is argued that these constructs are fundamentally different. In other words, whilst Smith's (1967) constellations are essentially static, the typologies presented by Stanworth and Curran (1976) imply that it is possible for an individual to display characteristics associated with all three identities at different stages of the entrepreneurial process (Woo et al 1988). In this sense, it is argued that these typologies represent a progressive approach to the entrepreneurial personality, illustrating how the attitudes and behaviour of the founder can change as a firm realises growth and moves towards a more rational and bureaucratic structure (Stanworth and Curran 1976). This progression however, is not considered to be automatic. Instead, it is contended that the decision-making process of the entrepreneur is influenced by a wide range of social, psychological and environmental factors that effectively determine the direction and performance of the firm (Stanworth and Curran 1976). For example, it is maintained that entrepreneurs disdain bureaucracy and are often prepared to forego small firm growth in order to sustain personal autonomy, independence and informality (Stanworth and Curran 1976; Dyer 1997). Consequently, this typology acknowledges that whilst personality is static (Bandura 1986), the strategic direction of the firm is essentially determined by entrepreneurial decisions and preferences which are shaped by constantly changing internal and external stimuli[9].

Penrose (1995) argued that entrepreneurial judgement pertaining to the maximisation of profits was distorted by the ambitions of the entrepreneur. This revelation led Penrose (1995) to utilise ambition to identify two entrepreneurial archetypes that were associated with the growth of the firm. The first archetype was described as being interested in the achievement of growth through the production and distribution of goods and services. These 'product minded' entrepreneurs directed efforts towards product quality and innovation, using technological development and cost reduction to sustain productive and distributive advantages over competitors (Penrose 1995). Furthermore, Penrose (1995) purported that this entrepreneurial type was an exponent of the process of endogenous growth, maintaining that profits were best earned through the incremental improvement and extension of firm activities. In contrast, the 'empire builder' entrepreneur was driven by a sense of vision and power. Penrose (1995) contended that whilst this archetype was also interested in product improvement and innovation, the primary motivation of the 'empire builder' centred on establishing a dominant firm through acquisition and the elimination of competition. Moreover, the 'empire builder' entrepreneur was portrayed as an aggressive individual who utilised superior financial, political and strategic competencies to outmanoeuvre competitors and gain substantial rewards (Penrose 1995).

In a study of the strategic orientations of European small businesses, Bamberger et al (1994) constructed four typologies based on the behaviour, attitudes and values of entrepreneurs. The pioneer archetype was construed as a dynamic and creative individual who was consistent with Schumpeter's innovative entrepreneur (Bamberger et al 1994). Furthermore, the pioneer was presented as a youthful and high ambitious risk taker who established firms in new industries in order to maximise profits and growth. Conversely, the organiser typology was developed by Bamberger et al (1994) to depict entrepreneurs that were essentially rational and analytical. In this sense, it was contended that these

[9] Note: It is important to recognise that this argument's validity rests upon the distinction between personality and behaviour. Stanworth and Curran (1976) have employed the terms personality and behaviour congruously, yet it is argued that whilst it is possible for behaviour to change over time, personality characteristics and values are, in essence, temporally stable (see Bandura 1986, Herron and Robinson 1993)

administrative types were driven by organisational efficiency relating to effective organisation and resources allocation, deriving reward from environmental adaptation (Bamberger et al 1994). Research by Bamberger et al (1994) revealed that the organiser archetype was often associated with the family owned business and consequently more concerned with satisfying subjective measures of performance such as security and succession rather than objective measures commonly associated with small firm growth. The all rounder entrepreneur enjoyed the innovative capacity of the pioneer type and the administrative ability of the organiser typology. The all rounder was considered to be a versatile entrepreneur who utilised a wide variety of skills and innovative strategies to earn substantial profits through superior performance (Bamberger et al 1994). Moreover, empirical evidence suggests that in terms of objective performance and growth, the all rounder emerges as the most successful archetype (Bamberger et al 1994). In contrast, the routineer entrepreneur was portrayed as a risk averse and cautious individual whose primary concerned was business survival. In fact, comparisons can be drawn between the routineer archetype and the craftsman typologies developed by Smith (1967), Filley and Aldag (1978) and Dunkelberg and Cooper (1982).

The utilisation and construction of various typologies has provided a significant contribution to the comprehension of entrepreneurial behaviour and performance (Woo et al 1988). These typologies however, have been created using differing classifications and methodologies. Consequently, it is maintained that the relationship between certain entrepreneurial types and the strategic behaviour, direction and managerial style of the small firm ensure that typologies continue to be context specific (Woo et al 1988). Furthermore, Woo et al (1988) contest that whilst comparisons can often be drawn between certain studies, the notable variances that exist underneath similar labels suggest that generalisations relating entrepreneurial typologies to the performance of the small firm are not advisable. Moreover, many typologies remain static and fail to acknowledge that the attitudes and behaviour of the entrepreneur are liable to change over time due to a myriad of internal and external factors (Stanworth and Curran 1976). Despite this solicitation for caution, it is important to recognise that most typologies attempt to delimit an entrepreneurial type in terms of strategic orientation, behaviour and management style. In addition, the typologies presented by Stanworth and Curran (1976) suggest that these factors are not necessarily stable over time. Instead, it is argued that certain environmental forces have a significant effect upon the entrepreneurial decision-making process which determines the strategic direction, behaviour and management style of the small firm (Stevenson 1985; Stanworth and Curran 1976; Kao 1989; Slevin and Covin 1990).

It is therefore reasonable to conclude that the impact of certain characteristics and background factors upon strategic decision-making are liable to change over time. It can also be argued that the achievement of objectives combined with socially driven aspirations of the entrepreneur or owner-management team may ultimately influence the subsequent growth and development of a successful firm. It is therefore evident that the characteristics, ability and motivation of the owner-manager continue to play a pivotal role in strategic decision-making and small business development and thus cannot be ignored in any examination of small firm growth.

3.4 Conclusion – Entrepreneurial Decision-making and Small Business Growth

This Chapter has discussed whether it is possible to identify fast growing firms from the characteristics and competencies of their owner-managers.

A range of characteristics and typologies has been examined but at present there seems to be no, one correct combination of personal attributes, background influences and skills that essentially delimits a successful entrepreneur from an unsuccessful one. Nevertheless, this Chapter argues that the entrepreneur or owner-management team continues to occupy the central role in terms of firm development and strategic decision-making. In this sense, it is maintained that the entrepreneur exerts a considerable influence upon how the firm develops and grows. Moreover, it is submitted that this influence also extends to deciding what management practices and organisational structures are adopted[10].

Thus, this Chapter proposes that the performance and growth of the small firm is not only shaped by certain personality and background characteristics of the owner-manager but also by the management choices made by the entrepreneur in response to environmental turbulence (Slevin and Covin 1990).

[10] Note: These conclusions are developed in the conceptual framework discussed in Chapter 5.

The impact of these choices and managerial development in growth oriented firms is discussed in Chapter four.

Chapter 4

Small Business Management & Growth

Chapter 4: Small Business Management and Growth

Building upon the observations made in Chapter three regarding the central role of the entrepreneur in facilitating the growth process this Chapter considers the effect growth has on management development in small ventures. The growth of any firm is dependent upon the ability of its management to effectively co-ordinate its activities in response to environmental change. This Chapter outlines the important role management plays in securing and maintaining a firm's strategic position. It also outlines how management within a small firm is a unique process that is subject to continuous change. Within the small business context, the role of management in the formative years of an organisation's lifecycle is usually undertaken in an informal manner by the entrepreneur or a small management team. As the firm achieves growth and establishes a business platform however, it becomes necessary for additional management expertise to be developed or acquired to co-ordinate a more complex organisation. It is submitted that sustained growth is not only determined by the initial skills and experience of the original owner-management team but also the accumulation of additional resources and competencies that enable the firm to enjoy sustained competitive advantages. The Chapter concludes that it is the ability of management to identify, develop and re-deploy these capabilities in response to environmental opportunities and threats that ultimately decide the longevity of firm growth. In addition, this Chapter suggests that owner-management preferences and perceptions are also key determinants of the management techniques adopted by high growth firms.

4.1 Management, Growth and Competitive Advantage

The primary economic function of the firm is to utilise productive resources in order to supply goods and services to an economy (Penrose 1995). In this sense, the firm differs from the market in that activities are co-ordinated by an administrative framework rather than price. The firm therefore can, to all intents and purposes, be construed as both a collection of productive resources and an administrative organisation whose general purpose is to combine these resources for the production and sale of various goods and services for a profit (Penrose 1995).

Profit and superior performance are dependent upon a firm's ability to manage its competencies and resources effectively in order to achieve sustainable competitive advantage (Porter 1985; Wernerfelt, 1984, 1989, 1995). Within the field of strategic management understanding these sources of sustained competitive advantage has received a considerable amount of academic attention (Barney 1991). It is commonly acknowledged that firms who are able to implement strategies that simultaneously exploit environmental opportunities and minimise external threats secure these advantages. These strategies are primarily achieved by maximising the organisational strengths and reducing the existing internal weaknesses of the firm (Ansoff 1965; Hofer and Schendel 1978). Within this context, management is charged with the role of continually co-ordinating and allocating resources and competencies to ensure that the firm is organised effectively to meet this challenge.

Historically, previous research has tended to either concentrate on isolating a firm's opportunities and threats (Porter 1980, 1985) or examining a firm's strengths and weaknesses (Hofer and Schendel 1978; Penrose 1995). Despite some attempts to ascertain how a firm can successfully match its internal environment to opportunities and threats that exist in its external environment, the majority of literature has focused on analysing a firm's external environment (Barney 1991; Foss 1996). For example, the work by Porter (1980, 1985) essentially described the external conditions that favoured high levels of firm performance and key attributes of attractive industries. Porter (1985) reported that when favourable conditions existed within a particular industry, firms that could successfully position themselves through the implementation of a congruous strategy were more likely to enjoy superior performance. These theories however, by simply focusing on the impact that a firm's environment has on its competitive position, essentially ignores the contribution that idiosyncratic firm attributes make to establishing a firm's competitive position (Barney 1991; Foss 1996). Moreover, these models also assume that all firms within an industry were able to reposition themselves in response to changes in the environment. This assumption implies that firms share the same access to resources and are able to implement a wide range of strategies to maximise environmental conditions. Given that firms do differ in size, profitability and growth it seems reasonable to surmise that the assumption made by these environmental models is somewhat unrealistic (Foss 1996). Instead it is argued that the resource heterogeneity of firms and the extent to which certain resources or competencies can be classified as immobile are also sources of competitive advantage for organisations (Rumelt 1984; Wernerfelt, 1984, 1989, 1995; Conner 1991; Barney 1991; Penrose 1995; Foss 1996).

An organisation is said to have a competitive advantage 'when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors' (Barney 1991, p. 102). In addition a firm is considered to have a sustained competitive advantage when 'it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when those other firms are unable to duplicate the benefits of this strategy' (Barney 1991, p. 102). In this sense it is proposed that a firm that can successfully formulate strategies that are not currently being utilised by other firms in a particular industry, and that cannot be easily copied, are better positioned to enjoy superior performance and growth in the long run. Consequently, firms that are endowed with resources or competencies that are heterogeneous and perfectly immobile are more likely to introduce strategies that sustain their competitive advantage (Knudsen 1996; Foss 1996).

Notwithstanding the fact that is possible to sustain a competitive advantage, it is important to recognise that such an advantage will not necessarily last forever. Changes in society and technological advancements give rise to ever changing environmental conditions that continually redefine the value of a firm's competitive advantage (Barney 1991). Moreover, not all resources available to a firm are capable of providing a source of sustained competitive advantage. To have this potential, Barney (1991) submits that a resource must possess certain key attributes. Firstly, the resource or competence must be of value in terms of simultaneously neutralising environment threats and exploiting opportunities. Secondly, it must be rare or unique as a valuable resource, competence or strategy that is readily available to a large number of firms suggests competitive parity. In other words, if a particular bundle of firm resources is not rare, competitors will be able to conceive of and implement similar strategies and hence undermine a firm's competitive position. In addition, if competitors are able to access strategically equivalent resources that enable them to implement similar strategies, this will also undermine the sustainability of a firm's competitive advantage. Finally, to be a source of long term competitive advantage a resource must be imperfectly imitable. In this sense, Barney (1991) argues that firms that can achieve combination of resources that are either socially complex, causally ambiguous or evolve due to unique historical conditions are more likely to formulate strategies that cannot be easily imitated by competitors. Inimitability arises due to the fact that organisations, as they grow, establish context specific systems, procedures and relationships that are often determined by a unique evolutionary process.

A successful competitive strategy, capable of facilitating long term survival and growth, requires management to develop and build a resource base that can endow a firm with sources of sustained competitive advantage (Wernerfelt, 1984, 1989, 1995). Thus, whilst environmental models emphasise the importance of developing successful market or product based strategies, these strategies are dependent upon the ability of management to build a repository of valuable, rare and inimitable resources or competencies that enable a firm to pursue these strategies (Barney 1986, 1991). A firm's resources include all its assets, capabilities, organisational processes, information and knowledge. Firm resources can be conveniently classified into three categories: physical, human and organisational capital resources (Barney 1991). Physical resources refer to a firm's technology base and its geographical location in terms of accessibility to market and availability of complementary resources. Human capital resources include the training, judgement, relationships and intelligence of a firm's management and workforce whilst organisational resources represent a firm's formal reporting structures, planning procedures and co-ordination systems. It is the combination of these resources through the processes of knowledge and experiential learning that management are able to identify strategies, processes and practices which endow a firm with a competitive edge (Teece and Pisano 1994; Hodgson 1995). The nature of a dynamic environment however, provides that management are constantly having to review the value of these strategic assets in response to environmental change and uncertainty. As a result, the key role of management becomes the competent adaptation, integration and reconfiguration of internal and external organisational skills, resources and functional competencies to maintain the competitive advantage of the firm in light of changes in the environment (Hodgson 1995; Teece and Pisano 1994; Foss 1996). In fact, Teece and Pisano (1994) posit that;

> *The competitive advantage of firms stems from dynamic capabilities rooted in high performance routines operating inside the firm, embedded in the firm's processes and conditioned by history. Because of imperfect factor markets, or more precisely the non-tradability of soft assets like values, culture and organisation experience, these capabilities cannot generally be bought: they must*

> *be built...Competitive success [therefore] occurs in part because of the processes and structures already established and experience obtained in earlier periods' (p.553)*

It is therefore apparent that whilst management may, to all intents and purposes be a common characteristic of every firm, success is dependent upon the ability and willingness of management to understand which organisational strategies, routines or processes are sources of sustained competitive advantage (Barney 1991; Teece and Pisano 1994; Hodgson 1995; Foss 1996). The development of these resources however, cannot be construed as a simple or automatic process (Barney 1991). It has already been established that a significant percentage of firms either cease trading or fail to grow (Storey 1994). These firms, due to the perceptions, motivations and deficiencies of their managerial teams, are unable to secure these advantages or effectively re-deploy resources in response to changing environmental conditions (Teece and Pisano 1994). Thus, it can be concluded that the capabilities of management are in themselves sources of sustained competitive advantage and that;

> *'Winners in the global market place [are] firms that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively co-ordinate and re-deploy internal and external competences' (Teece and Pisano 1994, p. 538)*

Notwithstanding these observations, it is commonly acknowledged that considerable variation exists between the number, range and nature of managerial tasks undertaken by individual firms to achieve this primary objective (Penrose 1995). The preferences of its top management team, its administrative structure, its size and the volatility of its environment determine the management of a firm. The term management refers to the particular roles occupied by certain people within an organisation (Watson 1995). It also can be used to refer to various functions carried out within the boundaries of the firm that are responsible for its effective operation or alternatively the activities undertaken by people to successfully manage the firm. In other words, the term management can be used to identify those individuals responsible for determining the strategic direction and scope of the firm and how management functions successfully co-ordinate the factors of production. Furthermore, these definitions when viewed together essentially provide not only an understanding of why management is important to an organisation but also how effective co-ordination is achieved (Watson 1995). Management work is primarily concerned with 'shaping the productive co-operation of individuals and groups within the organisation and matching these efforts with the demands of those outside the organisation' (Watson 1995, p. 40). Consequently, the role of management cannot be construed as simply being one of resource allocation and co-ordination to secure an organisation's survival but also a role that involves satisfying the needs of a wide range of internal and external stakeholders. These stakeholders rarely share similar objectives and personal needs such as reward, remuneration and status are often considered to be more important than organisational performance. The challenge of management therefore is to also ensure firm prosperity by continually achieving a balance between the strategic objectives of the firm and resource demands of stakeholders (Watson 1995).

4.2 The Context of Small Business Management

The management process in the small firm is unique and bears little or no resemblance to management practices, processes, constructs or models developed by previous research to explain the management function in their larger counterparts (Jennings and Beaver 1997). The management function within a small venture differs significantly from that of a large organisation (Mintzberg and Quinn 1996). The majority of these differences concern the lack of specialist expertise, managerial time and resources. In a larger firm, the top management team co-ordinates the efforts of a team of specialists in finance, production, human resources and marketing in order to achieve a clearly defined long term goal (Jennings and Beaver 1997). In contrast, the small business owner often has to adopt the role of a management generalist and undertake a wide range of management functions (Stanworth and Gray 1991). Thus, in the entrepreneurial organisation, management functions are usually limited to the owner-management team (Jennings and Beaver 1997). This centralisation provides the small firm with the distinct advantage of being able to gear strategic response to the current operational competencies of the organisation (Mintzberg and Quinn 1996). Moreover, the closeness of the owner-management team to operating personnel and activities provides an opportunity to directly influence organisational behaviour (Jennings and Beaver 1997). As a result, it is submitted that small firms enjoy a strong sense of mission whereas larger firms have to contend with conflicts between different management functions, opportunism and self-interest (Alchian and Demetz 1972; Williamson 1975; Cromie et al 1995). In addition, it is also argued that one of the greatest strengths of an entrepreneurial organisation stems from the fact that strategic decision-making is not inhibited by the inherent bureaucracy of a managerial hierarchy and therefore has the capacity to respond quickly to change. This ability to respond quickly to change however, is tempered by the realisation that firm success is often dependent upon the capabilities and knowledge of a single individual (Mintzberg and Quinn 1996). The vision and drive of the entrepreneur or entrepreneurial team normally drives a new and evolving organisation (Kao 1989). The owner-manager therefore, in response to an opportunity or threat, determines change. If the entrepreneur fails to acknowledge or simply resists the need for change then it is conceivable that the organisation will have no other means of adaptation (Mintzberg and Quinn 1996). In these circumstances, given the power that accompanies majority ownership, it is evident that the top management team cannot easily be challenged by other stakeholders in the small firm (Jennings and Beaver 1997). Thus, one of the greatest strengths of the entrepreneurial organisation can quickly become a major liability and threaten long-term development and survival. The paternalistic and sometimes autocratic nature of the entrepreneurial firm can also become a source of dissonance (Jennings and Beaver 1997). As previously stated each stakeholder approaches an organisational problem from a particular perspective shaped by a myriad of personality, motivational and experiential factors[1]. In terms of the owner-management team, these idiosyncrasies can lead to erratic and unpredictable management behaviour patterns that are not always conducive to small firm growth and superior performance (Mintzberg and Quinn 1996; Jennings and Beaver 1997). Moreover, as the firm grows, it becomes more and more difficult for the entrepreneur to suppress the preferences of other stakeholders[2]. It is also maintained that the sophistication of the firm determines the level of stakeholder involvement and subsequent impact upon the decision-making process of the firm (Atkins and Lowe 1994). External stakeholders can be viewed as constituent parts of the entrepreneur's strategic network. Strategic networks are essentially a key resource of the small firm (Kao 1989; Atkins and Lowe 1994) and provide the entrepreneur with the opportunity to obtain resources, reduce transaction costs and gain competitive advantage through long term arrangements with individuals, organisations and institutions (Atkins and Lowe 1994).

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[1] Note: The influence of personality and background characteristics upon small business growth is discussed in Chapter 3.

[2] Note: Stakeholders, in this context, include employees, financial institutions, suppliers and customers.

The value of these strategic networks however, is limited by the extent to which stakeholders can effectively influence the strategic decisions of the small firm. In addition, a conflict between subordinates and owner-managers gives rise to personal dissatisfaction and cultural disharmony, which is often detrimental to organisational effectiveness (Jennings and Beaver 1997). It is therefore evident that the founder is the primary stakeholder and can rarely be overridden (Jennings and Beaver 1997). In the early stages of business development the decision-making process is governed by the aspirations of the entrepreneur and various ancillary social influences such as the values of society and the attitudes of the family (Beaver and Jennings 1995). Furthermore, it is the founder's or owner-manager's associated drive and knowledge that usually constitutes one of the main assets of the firm. To achieve growth, the entrepreneur not only has to ensure that these assets are augmented but also resist the temptation to dilute these competencies by attempting to manage every function in the firm. It also becomes increasingly important for the entrepreneur to take the conscious decision to no longer undertake operational tasks such as marketing and finance and instead concentrate on the future strategy of the business and effective resource allocation and acquisition. In many cases, this transition is dependent upon the willingness and ability of the owner-management team to delegate responsibility and manage the activities of others (Mintzberg and Quinn 1996; Jennings and Beaver 1997). It can therefore be ascertained that sustained growth is not only constrained by the aspirations of the entrepreneur but also the influence external and internal stakeholders can exert on the owner-management team (Jennings and Beaver 1997).

4.2.1 Transitional Management and Small Firm Development

It has been established that the development of the small firm is dependent upon the entrepreneur (Dyer 1997). The phenomenon of small business growth creates a conflict between the vision and values of the entrepreneur and the need to introduce bureaucracy to co-ordinate the process of growth (Kao 1989). In this sense, it is contended that the process of growth dictates that many entrepreneurial management practices become obsolete as the small firm experiences growth (Charan et al 1980). Many entrepreneurs however, are not prepared to make this sacrifice in order to achieve growth (Dyer 1997). Consequently, it is argued that the expansion of the small firm is determined by the extent to which the entrepreneur is prepared to entertain the transition from an entrepreneurial to a professional system of management (Charan et al 1980; Flamhotz 1986). An entrepreneurial firm can be defined as a highly centralised decision-making system with a paternalistic management style whose success is primarily shaped by the abilities of the entrepreneur (Charan et al 1980). Furthermore, it is maintained that whilst the entrepreneurial decision-making process allows the small firm to respond rapidly to environmental opportunities, centralisation acts as a significant barrier to growth (Kets de Vries 1977; Schein 1985) and inhibits the development of decision-making skills in subordinates (Charan et al 1980). It is therefore evident that during the initial stages of development, small business management is, to all intents and purposes, an extension of the characteristics, perceptions and capabilities of the entrepreneur (Jennings and Beaver 1997).

The development of the growing small firm has been subject to a considerable amount of academic speculation and historically, notable observations on how organisational dynamics change as organisations grow, have been made by a number of researchers (Gibb and Davies 1990; Dyer 1997). Research by Smallbone et al (1995) revealed that changes in management and organisational structure were consistent features of high growth firms. This study concluded that high performing firms 'were significantly more likely to have introduced professional managers into the firm' (p. 57). In addition, they also observed that fast growing firms were more committed to developing their management resources through training. Similarly, Storey and Sykes (1996) contend that start up teams of fast growth ventures usually consist of a number of professional managers with a range of functional skills. They also submit that in these firms the role of management is more concerned with delegation and effective resource allocation. It is therefore perhaps unsurprising that there is strong academic support for the notion that the expansion of managerial activities in the growing small business can be characterised by a shift from an entrepreneurially to professionally managed firm (Watson 1995). It is also argued that this shift enables the small firm to accrue generic management skills that are instrumental to sustained growth, skills that are often outside the existing competence base of the existing owner-management team (Watson 1995).

There is a general consensus that small organisational systems are fundamentally different from their larger counterparts (Dyer 1989, 1997; Storey 1994; Penrose 1995). Large systems are depicted as having an established culture that provides a template for the norms, values and behaviour of organisational members (Dyer 1997). These systems also have well developed routines that essentially guide the strategic direction and scope of the organisation. In contrast, emerging ventures possess very little history and the norms, values and beliefs of the owner-management team play a crucial role in establishing a culture that effectively governs organisational behaviour. Moreover, whilst these firms are not constrained by culture and traditions the lack of organisational routines provides that entrepreneurial firms often lack the necessary systems to manage resources effectively (Dyer 1997). Dyer (1989) reported that many of the differences between large and small organisational systems could be explained by the differences between the competencies and values of professional managers and family owned businesses. In addition, Schein (1985) also observed that founders of family oriented firms and professional managers analysed problems differently, occupied different positions of authority and related to others in different ways. Founders of family firms tended to be intuitive in their decision-making and used charisma to motivate others whilst professional managers were more inclined to make decisions based on logic and rational analysis and used their organisational standing as a means of motivating others (Schein 1985; Dyer 1989, 1997). On the other hand, Charan et al (1980) proposed that entrepreneurial firms could be identified as having an over dependence upon one or two key individuals, an inadequate repertoire of managerial skills, a paternalistic culture and a highly centralised decision-making system. Conversely, they saw a professionally managed firm as an organisation that facilitated the delegation of authority, utilised formalised information analyses, possessed functional flexibility and did not suffer from an over dependence on certain key individuals.

Stevenson (1985) suggested that the study of entrepreneurship was essentially an alternative approach to management. Stevenson (1985) argued that entrepreneurial behaviour could be redefined by examining six fundamental dimensions of business practice, namely, strategic orientation, commitment to opportunity, resource commitment, compensation policy, resource control and management structure. It was also purported that, within these dimensions, the behaviour of the entrepreneur existed between two typological extremes.

The promoter archetype described an entrepreneur who was innovative and confident to pursue a wide range of opportunities regardless of resources currently controlled

(Stevenson 1985). The promoter was depicted as a performance driven individual who utilised existing knowledge, skills and informal information networks to acquire temporary access to key resources in order to exploit opportunities presented by the environment. The trustee archetype however, was viewed as being administration led and whose vision of opportunity was determined by existing resource ownership (Stevenson 1985). Furthermore, the administrative nature of the trustee firm provided that the aspirations of the entrepreneur were often constrained by a formalised hierarchy and increased stakeholder involvement (Kao 1989). Stevenson (1985) contended that within these extremes there was an observable range of behaviours that could be classified as either entrepreneurial or administrative. Moreover, it was maintained that during the life of the firm the behaviour of the entrepreneur was influenced by a variety of social, economic and psychological pressures (Stevenson 1985; Kao 1989). These pressures are essentially dynamic and thus the strategic orientation and direction of the firm is often subject to temporal change. In fact, it is argued that the accumulation of resources that takes place as a small firm grows, exerts a significant influence upon the owner-manager in terms of inhibiting entrepreneurial behaviour (Kao 1989). Furthermore, it is contended that the success of the small firm is determined by the initial resource choices made by the entrepreneur during the formative years of a small business venture (Hart et al 1995). Moreover, Slevin and Covin's (1990) suggest that an entrepreneurial management style coupled with an organic organisational structure are precursors to establishing an effective entrepreneurial firm. Slevin and Covin (1990) also maintain that environmental turbulence and managerial perception have a significant effect upon the organisational structure and managerial style adopted by the small firm. Consequently, they argue that the dynamics of environmental perceptions and strategic choice essentially determine the structural and managerial evolution of the firm. These observations further support the proposition that growth cannot be solely defined in terms of a specific set of personality characteristics or as a product of an economic function but instead as a cohesive pattern of managerial behaviour which can change over time (Stevenson 1985; Kao 1989; Slevin and Covin 1990).

As previously stated, there is a substantial amount of literature that attempts to examine the necessity for a changing style of management and the need for organisational change within a growing venture (Gibb and Davies 1990). The justification for these growth models stems from the rationale that organisations cannot avoid alterations to their shape as their mass expands. In other words, organisational growth increases the critical mass of the firm. This, in turn, prompts the firm to introduce systems and control mechanisms in order to effectively manage the new organisational form (d'Amboise and Muldowney 1988). In general, growth models tend to describe a firm's development from a holistic form of management to a more team based, functional and professional approach to organisational management (Gibb and Davies 1990; Watson 1995). These metamorphosis models, usually focus on various functions and structures that occur as the firm experiences growth (d'Amboise and Muldowney 1988). These stage models also describe organisational development in terms of changes in marketing activities, financial control, human resources, firm structure and leadership style (Scott and Bruce 1987; Gibb and Davies 1990; Storey and Sykes 1996). For rapid growth firms, all phases pertaining to the development of the management process are considered to be dynamic and the adoption of management practices is dependent upon a wide range of factors including growth rate, size, age and the abilities and motivations of the entrepreneur (d'Amboise and Muldowney 1988). These models however, have been subjected to extensive criticism (Churchill and Lewis 1983; Scott and Bruce 1987; d'Amboise and Muldowney 1988; Gibb and Davies 1990). This criticism primarily originates from the fact that these models do not build upon empirical investigation (Gibb and Davies 1990). Furthermore, it is argued that these models have generated a number of spurious generalisations such as the assumption that the entrepreneurial firm must achieve a degree of professionalism in order to facilitate sustained growth (Stevenson and Jarillo-Mossi 1986, 1990).

It is also acknowledged that there is more than one way in which small firms can cope with the phenomenon of growth (Gibb and Davies 1990). Stevenson and Jarillo-Mossi (1986) argue that 'companies that preserve entrepreneurship as they grow preserve the ability to change' (p. 23). In this sense, it is argued that entrepreneurship enables an organisation to continually pursue new opportunities. The pursuit of a new opportunity implies that the firm will be required to challenge its internal equilibrium to accommodate the pursuit of a future state (Stevenson and Jarillo-Mossi 1986). Thus, firm growth becomes increasingly dependent upon the ability of management to introduce new processes and practices that ensure the effective allocation of resources between existing activities and the exploitation of emerging opportunities. Furthermore, it is maintained that there is a dependency between certain management styles and organisational growth (Leontiades 1982). It is suggested that firms with steady state management styles are less likely to consider further evolution outside incremental improvements to efficiency whereas a firm which enjoys an evolutionary style of management is more likely to pursue a wider range of strategies such as acquisition and diversification in order to sustain growth (Leontiades 1982).

The debate as to the relevance of stage models to explaining management transitions in growing businesses is centred upon the issue of an assumed evolutionary process. For example, Flamhotz (1986) argued that in the formative years the success of a small firm was principally the result of effective entrepreneurship. As the firm experiences growth however, there is an increasing pressure to formalise planning, control and organisational systems in order to mould an organisational culture capable of formalising the socialisation of new employees. In addition, Charan et al (1980) contended that the need to professionalise the management process in the entrepreneurial firm was essentially a survival imperative. These evolutionary models however, fail to acknowledge that there is invariably no inevitability of progression (Watson 1995). Firms cannot be compared with biological entities and while some analogies have proved useful (e.g. Penrose 1995), the firm should be construed as a social rather than biological organisation. In other words, businesses are social organisms that possess choice-making agents that have an ability to defy accepted patterns of conformity (Stanworth and Curran 1976). This important observation further supports the premise that, in many circumstances, small firms do not continuously grow but rather opt for successful disengagement from the growth process in line with the personal aspirations of the owner-management team (Churchill and Lewis 1983; Scott and Bruce 1987; Storey and Sykes 1996; Watson 1995).

4.2.2 Establishing a Managerial Platform

Notwithstanding the fact that firms adopt a plethora of management styles and organisational structures to manage growth, it is evident that the quality of management is an important issue facing the developing firm. The management skills and experience of the entrepreneur are considered to be key determinants of growth (O'Farrell and Hitchens 1988; Jennings and Beaver 1997). In addition, it is suggested that the growth of the firm is ultimately determined by the capabilities of management (Penrose 1995; O'Farrell and Hitchens 1988). Thus, whilst entrepreneurial behaviour is conducive to initial entrepreneurial success, sustained growth is dependent upon the ability of the entrepreneur to continually manage the small firm (Charan et al 1980). Moreover, Penrose (1995) argues that the growth of the firm is not only shaped by the enterprising behaviour of the entrepreneur but also by the extent to which the entrepreneur can manage competently. In this context, Penrose (1995) uses the term entrepreneur in a functional sense to identify individuals who provide the firm with entrepreneurial and managerial services. Entrepreneurial services are contributions to the firm which relate to the introduction of new ideas, innovations and technologies whilst managerial services refer to those services which ensure the competent execution of entrepreneurial ideas and supervision of existing activities (Penrose 1995). Consequently, it is the combination of these services that determines the effective management of the firm (Penrose 1995).

In the early stages of development, the consequences of entrepreneurial decision-making have a significant effect upon the subsequent growth of a small firm (Klofsten 1998). In its formative years, a small firm is more likely to fail (Storey 1994). It is argued that in these circumstances, cessation stems from the firm's failure to establish a suitable business platform[3]. A distinct characteristic of many small firms is their instability. As small firms secure their position in a market place and successfully pass through the initial development process by building an appropriate business platform they become more viable and less vulnerable to changes in the environment (Klofsten 1998). Reasons that are commonly cited as major contributing factors to a small venture's vulnerability relate to its liability of smallness and newness. Liabilities of smallness arise from a business' inability to generate suitable capital to realise opportunities and cope with certain administrative demands (Choi and Standish-Kuon 1999). On the other hand, a liability of newness concerns the firm's limited ability to develop internal management structures and process or form suitable links with its micro environment (Stinchcombe 1965; Klofsten 1998; Choi and Standish-Kuon 1999).

For a firm to achieve a business platform from which it can secure survival and the potential for growth it must accumulate the necessary resources and develop the ability to manage and allocate resources effectively. Klofsten (1998) argues that a business platform is subject to a number of internal and external factors. These factors include the establishment of strong relationships with customers, vendors and financial backers

[3] Note: In this context, the term business platform is used to denote a state at which a firm has accumulated the necessary resources and skills to promote corporate survival and growth (see Klofsten 1998).

in order to gain access to the required resources. In addition, factors such as building a business with complementary core expertise, effective management structures and systems are also required so that the firm is well placed to maintain and augment these important relationships. Notwithstanding the fact that a firm's ability to pursue growth is dependent upon it building a suitable business platform, what constitutes an effective business platform will differ from firm to firm (Klofsten 1998). For example, service oriented firms are more likely to divert additional resources towards the maintenance and acquisition of strong market and customer relationships. Conversely, manufacturing firms may narrow their focus in terms of the market in favour of resources, systems and processes that help to improve quality or reduce the cost of production. Nevertheless, the emergence of a business platform delimits a firm's early development process (Klofsten 1998). It also represents the process by which a small firm attempts to solve a number of significant problems. In the early development stages, the emphasis is on the developing an idea into a finished product or service desired by the marketplace (Greiner 1972; Klofsten 1998). The primary role of management is to build a platform which is informal and flexible enough to allow the firm to quickly establish a market position which is sufficiently large and profitable (Mintzberg 1973; Miller and Friesen 1984). As the firm cements its position in the market environment the co-ordination of resources and the communication of strategic goals becomes more difficult. At this point, effectiveness becomes increasingly dependent upon the introduction of basic functions such as sales, marketing and production control (Klofsten 1998). Thus, as the firm matures, its continued survival is determined by the ability of management to augment a firm's business platform so that it can manage growth (O'Farrell and Hitchens 1988; Klofsten 1998).

4.2.3 The Emergence of Management Practices in Growth Oriented Firms

It is suggested that as a small firm grows the entrepreneurial tendencies of the owner-manager are often superseded by the need to effectively co-ordinate the existing activities of the organisation (Stevenson 1985; Kao 1989). In this sense, it is purported that the decisions of the entrepreneur are increasingly shaped by the resources controlled by the organisation and hence, continued growth is increasingly influenced by the need to maintain and protect the existing asset base of the firm (Stevenson 1985; Timmons 1985; Begley and Boyd 1987; Kao 1989; Mullins 1994).

Historically, the study of small firm management has been impeded by the lack of distinct boundaries between the concepts of entrepreneurship and SME management (Eyre and Smallman 1998). The entrepreneur is portrayed as an individual with particular skills and attributes that facilitate the process of entrepreneurship and new venture creation (Gibb and Scott 1985; Eyre and Smallman 1998). The nature of the entrepreneurial firm however, provides that whilst these competencies are instrumental in securing initial entrepreneurial success, the sustained development of the firm is increasingly dependent upon the managerial competencies of the entrepreneur (Charan et al 1980; O'Farrell and Hitchens 1988; Chandler and Hanks 1994; Mullins 1994; Jennings and Beaver 1997).

Despite these apparent difficulties, recent research by Eyre and Smallman (1998) suggests that certain entrepreneurial competencies such as vision, flexibility, intuition and the motivation to succeed are becoming increasingly important facets of the modern European manager[4]. Nevertheless, it is recognised that entrepreneurs usually acquire these skills through the process of experiential learning (Gibb 1996; Eyre and Smallman 1998) and thus many of the competencies associated with the successful management of a firm are essentially context dependent (Holman and Hall 1996). As a result, it is reasonable to assume that the entrepreneurial role within the growth firm is essentially heuristic (Kao 1989) and that sustained growth is not only a product of effective entrepreneurship but also the development of competent management practices (Penrose 1995).

Small firms cannot automatically adopt management practices utilised by successful large companies in order to sustain growth. Instead, a considerable amount of literature exists highlighting fundamental differences between large and small businesses in terms of managerial, organisational and operational competencies (Sonfeld 1994). Small firms often have a 'myopic' view of management and tend to focus purely on satisfying day-to-day operational challenges rather than striving towards a long-term strategic goal (Ahire 1996). This viewpoint stems primarily from the fact that small firms usually lack the necessary resources to adequately manage all aspects of the business and the inability of the owner-manager to acknowledge the importance of strategy to long term survival

[4] Note: Research by Eyre and Smallman (1998) brings together the observations made by Caird (1992) concerning the competencies of small business managers and the study by Dufour (1994) which identifies an ideal profile of the European manager.

(Ahire 1996). Notwithstanding these constraints, small firm survival and growth continues to be dependent upon the ability of the firm to adopt and develop management practices that effectively enhance existing businesses capabilities and improve the allocation of scarce resources (Yeh-Yun Lin 1998). Moreover, Chaston and Mangles (1997) suggest that it is important for small firms to have a balanced and more holistic approach to management (Chaston and Mangles 1997). In this sense, they argue that whilst certain large firm management practices may enable a growing small firm to establish a competitive edge, over emphasis on one or two of these processes often constrains future growth.

Within the small business context, previous research suggests that owner-managers are unable to devote enough time to issues that concern the strategic direction and scope of the firm (Ahire 1996; Hankinson et al 1997). The UK (Rennes) survey (1995-97) revealed that owner-managers generally believe that they have the technical and general management skills to operate a successful business to a certain level but lack the necessary financial, human resource and marketing management skills to take their businesses to the next level of development. In addition, the survey discovered that despite a general acknowledgement of these skills, in the majority of cases owner-managers did little to address these deficiencies often citing insufficient time and a lack of resources as reasons as to why steps had not been taken to enhance these managerial competencies (Hankinson et al 1997). The survey also found that owner-managers relied on their intuition in making management decisions and due to time constraints and a lack of marketing expertise favoured imitation and a 'wait and see' approach as a means of responding to changes in the business environment.

In contrast to these observations, research investigating the management practices found in fast growing small firms has identified that fast growth firms are more likely to have developed or acquired managerial practices in areas such as human resource management, finance and marketing (Kinsella et al 1994; Smallbone et al 1995; Balje and Waasdorp 1999). Evidence from the Sunday Times/Virgin Fast Track 100 (1999) suggests that the retention, recruitment and development of a quality workforce, processes that improve quality of products, services and marketing, are considered to be critical to firm performance. Research by Balje and Waasdorp (1999) on the characteristics of fast growing ventures in the Netherlands found that whilst there were no differences between fast growth and non-growth firms in terms of financial practices, fast growth firms were usually managed by teams that had experience in finance, marketing and human resource management. Furthermore, in their study of fast growing firms in the UK, Smallbone et al (1995) discovered that firms that enjoyed substantial growth were more inclined to develop a managerial base by undertaking management training and tended to introduce professional managers at strategic intervals. Furthermore, Smallbone et al (1995) observed that owner-managers of fast growing ventures were more likely to delegate operational authority in order to release time for issues that concerned the strategic direction and scope of the firm. Kinsella et al (1994) in their investigation of fast growing firms in Ireland also discovered that fast growth firms participated in a range of management processes such as planning and control, training, marketing, human resource management and finance in comparison to no-growth firms. In fact, Kinsella et al (1994) submitted that:

> *'In effect, such [management] practices relate to the inculcation of a growth ethos, the acquisition of certain skills, and the implementation and strengthening of systems which appear to be particularly associated with fast growth firms' (p. 192)*

Given that previous studies continually link the lack of management resources and expertise to small business failure (O'Farrell and Hitchens 1988; Storey 1994; Ahire 1996; Huang and Brown 1999) it seems reasonable to surmise that certain management practices are commonly associated with small business success and superior performance. From previous research undertaken by Kinsella et al (1994), Smallbone et al (1995), Balje and Waasdorp (1999) and The Sunday Times/Virgin Fast Track 100 (1999), it is evident that finance, marketing, human resource management, planning and control are consistently cited as management practices that are positively correlated with small business performance.

Previous research has demonstrated that there is a consistent positive relationship between the extent of planning undertaken by a small firm and its performance (Robinson and Pearce 1984; Lyles et al 1993; Rue and Ibrahim 1998). These studies have been able to ascertain, irrespective of differences in methodologies and definitions of what constitute formalised planning, that small firms with structured planning procedures outperform firms that rely on unstructured or non-formalised planning procedures (Rue and Ibrahim 1998). In one study, examining the planning processes in mature small ventures, Bracker et al (1988) identified a number of components of the small business planning process such as objective setting, environmental analysis, strategy formulation, budgeting, control procedures and financial projections. From these components they were able to construct four typologies to depict the level of planning sophistication evident within a small firm. Of these four typologies which included structured strategic, intuitive, operational and unstructured planners, they discovered that structured strategic planners often enjoyed superior performance. Subsequent research has yielded similar results and studies by Kinsella et al (1994) and Smallbone et al (1995) further support the premise that the use of forecasting, environmental analysis and long term objectives are positively associated with high growth firms. Moreover, it is also contended that formalised planning assists the development of the decision-making process. In this sense, it is commonly acknowledged that the procedures and processes associated with structured planning often enhance the quality of strategic decision-making, which in turn has been linked to improved financial performance (Lyles et al 1993).

One of the most important problems identified by small firms relates to insufficient capital, cash-flow management and working capital management (Peel and Wilson 1996). Evidence from the United States however, strongly suggests that financial practices amongst small firms have not experienced any dramatic changes in the past two decades (McMahon and Scott 1991). Nayak and Greenfield (1994) in their examination of 200 micro-businesses in England found that owner-managers displayed a distinct lack of financial awareness with only a third of all firms using any form of budgeting. Similarly, McMahon and Scott (1991) found that the majority of owner-managers in the United States only used financial reports in a very limited sense and only half of them made any attempt to compare their firm's performance with industry figures. Statistics from the UK also contend that over 20% of business failures can be attributed to poor financial management, bad debts and inadequate credit control (Storey 1994). Furthermore, Storey (1994) proposed that poor record keeping was a major cause of failure, commenting;

> *'It cannot be surprising, therefore, to find the high rates of business failure amongst such tiny firms, and an unwillingness on the part of financial institutions to extend them credit' (p. 218)*

In contrast, it is argued that budgeting, financial projection and performance measurement practices are more likely to be found in fast growing firms (Kinsella et al 1994; Nayak and Greenfield 1994). Research by Kinsella et al (1994) found that fast growing firms in Ireland tended to have good accounting systems, diverse sources of finance, good relationships with financial institutions and utilised internal equity and retained profits to support further growth initiatives. Nayak and Greenfield (1994) concluded on the other hand that within their survey the best performing firms were more likely to have formalised record keeping and budgeting and were more concerned with profitability and improving organisational efficiencies. Furthermore, research by Storey et al (1987) and the Cambridge Small Business Research Centre (1992) demonstrated that high growth firms were more inclined to seek external financial assistance and advice.

Closely related to the processes of planning and financial control are the issues of quality and consistency. In addition to practices like budgeting, performance measurement and financial projection, successful small firms are also looking towards quality control as a means of improving competitiveness (Cranswick 1995). Quality can be defined simply as 'internal and external customer satisfaction' (Chittenden et al 1998). There is an increasing amount of literature that attempts to investigate what quality procedures are utilised by SMEs. In general, this research uses large firm oriented techniques such as statistical process control (SPC), total quality management (TQM) and just in time production (JIT) to assess the degree to which small firms utilise these quality control procedures (Ahire and Golhar 1996; Cranswick 1995). Given that there are fundamental differences between large and small firms it is perhaps unsurprising that these investigations have provided equivocal results (Chittenden et al 1998). Thus, in general terms the research concludes that many small firms view these techniques as either being too costly or too bureaucratic (Ahire and Golhar 1996). Nevertheless, there is an emerging amount of literature that argues that successful small firms are starting to adopt quality management techniques through the adoption of ISO 9000 (Cranswick 1995;

Chittenden et al 1998). ISO 9000[5] is more a management control tool than a quality standard (Chittenden et al 1998). The standard involves the documentation of processes that concern a firm's design, production and distribution techniques to ensure that products and services conform to a pre-determined standard (Cranswick 1995). Previous research by Cranswick (1995) and Chittenden et al (1998) has discovered that successful small firms are utilising ISO 9000 as a strategic tool to improve internal procedures. Furthermore, the research concluded that ISO 9000 was frequently introduced by firms with some form of delegated authority. Chittenden et al (1998) also found that whilst some firms are forced into achieving the standard due to external market pressures, others recognised that the standard could effectively enhance internal capabilities and efficiencies.

It is contended that small firms cannot compete with larger organisations in terms of economies of scale, investment in research and development or promotional expenditure (MacLaren and McGowan 1999). Instead, successful small firms employ differentiation strategies that help them to exploit their inherent strengths such as response time and flexibility to engender comparative advantages (Sandberg 1986; MacLaren and McGowan 1999). It is commonly accepted that the marketing skills of the owner-management team are important to small business success and that this success is based upon the ability of the firm to position itself effectively within its business environment (Storey 1994; Smallbone et al 1995). Small firms that compete on price rather than quality and service are less likely to experience growth (Storey et al 1989; Kinsella et al 1994). This implies that success is dependent upon the firm building a product or service that is considered to be of value to its customer base (Gilmore et al 1999). The achievement of growth is also determined by the ability of management to make the necessary adjustments to changes in the market place (Storey 1994). Smallbone et al (1995) concluded in their study of 293 manufacturing firms that fast growth firms possessed the necessary skills and competencies to respond to changes in customer composition, technology and regulations. Consequently, it is submitted that fast growth firms tend to develop systems and procedures that enable them to regularly analyse the environment and competitor behaviour as well as identify new opportunities (Kinsella et al 1994). In fact, it is argued

[5] Note: The ISO 9000/14000 certification process has existed since 1987. Introduced through an International Organisation for Standardisation bulletin, its primary purpose has been to provide a series of world-wide standards for quality systems that can be used for external quality assurance purposes (see Stevenson and Barnes 2001).

that market intelligence is a prerequisite for long term survival as a lack of environmental scanning is inextricably linked to failure (Lang et al 1997). Furthermore, in their study of growth firms in Ireland, Kinsella et al (1994) reported that when compared to slow growth firms, fast growing firms had a greater awareness of their competitors, utilised non-price factors of competition and participated in regular reviews of the market environment.

There is a growing support for the proposition that human resource management (HRM) is inextricably linked to organisational performance (Becker and Gerhart 1996; Wagar 1998). This literature principally emanates from the United States and is primarily conceptual in nature although there is an increasing body of empirical work examining the HRM differences between large and small firms (Golhar and Despande 1997). It is argued that all firms need a well motivated and skilled workforce in order to compete effectively in an increasingly global marketplace (Marlow and Patton 1993). The ability to recruit and retain good employees however, continues to be a major challenge for many small firms (Wagar 1998). Previous studies by McEvoy (1984) and Amba-Rao and Pendse (1985) maintain that small firms have low levels of HRM sophistication, lacking rational and systematic approaches to employee retention, development and compensation. Moreover, it is reported that HRM is often superseded by other functions such as production, finance and marketing (McEvoy 1984).

Small firms are likely to employ less sophisticated HRM practices than their larger counterparts. Nevertheless, it is submitted that due to certain advantages resulting from the absence of bureaucracy, the influence and vision of the owner-manager and flexibility, the small firm is better organised to benefit from the HRM philosophy (Marlow and Patton 1993). In other words, small firms through the adoption of HRM practices can realistically achieve competitive advantage through employee development. It is also contended that HRM development to all intents and purposes is a significant factor in determining small business survival and growth (Hornsby and Kuratko 1990; Despande and Golhar 1994; Golhar and Despande 1997; Wagar 1998). In fact, Hornsby and Kuratko (1990) proposed that;

> *'The practice of effective personnel management is one that small businesses need to develop and improve as they expand and grow' (p.9)*

Good HRM programmes usually consist of processes and systems that enable a firm to effectively recruit, motivate and retain a quality workforce (Despande and Golhar 1994). Within the boundaries of the small firm, HRM is rarely developed at a strategic level and usually rests with the owner-management team (Despande and Golhar 1994; Wagar 1998). Consequently, it is argued that constraints on time and resources as well as a lack of knowledge provide that in the majority of cases these HRM processes are less sophisticated when compared to the practices utilised by larger companies to undertake the same function (Ng and Maki 1993; Golhar and Despande 1997). Despite these differences, research by Golhar and Despande (1997) revealed that whilst SMEs were unable to use conventional financial incentives to retain key personnel, they used similar workforce characteristics to assess the value of existing or potential employee. These characteristics included an employee's commitment to the firm, motivation, experience, self-discipline and ability to work as part of a team.

Evidence also suggests that the majority of SMEs are reluctant to train their workforce (Marshall et al 1995). Many small firms do not have training budgets and perceive training as an operational expense rather than a long-term investment (Kerr amd McDougall 1999). Training within the small firm is often governed by the constraints already mentioned and whether it will be of any immediate benefit to the firm. In this sense, any training undertaken is informal and ad-hoc in nature and is usually geared to meeting short term objectives (Westhead and Storey 1997). It is argued however, that in order for employee training and development to support growth, human resource development and training need to be formalised and viewed from a strategic perspective (Kerr and McDougall 1999). Moreover, research by Kinsella et al (1994) and Smallbone et al (1995) support the premise that employee development and training are positively associated with growth. It is pertinent to note however, that whilst commentators generally advocate this causal relationship, the existence of a large set of contingent factors which also affect small firm growth has ensured that this relationship has yet to be confirmed empirically (Westhead and Storey 1997). Nonetheless, it is reasonable to surmise that small firms that are able to locate HRM and training strategically are more likely to optimise performance and create competitive advantages (Kerr and MacDougall 1999).

4.3 Conclusion - Managing for Small Firm Growth

This Chapter has investigated the development of management within growing small firms. It has been argued that in general, a transition takes place in which the entrepreneurial managed firm slowly adopts a range of professional management practices to co-ordinate the process of growth. This Chapter has also established the important role management plays in maintaining the existing activities of the firm and looking at ways to exploit emerging environmental opportunities. In addition, the concept of sustainable competitive advantage has been examined in relation to how a firm achieves a superior strategic position within a given market place. It has been suggested that whilst the entrepreneur exerts a considerable influence upon the strategic direction and scope of a growing venture in its formative years, the emergence of professional management implies that this influence is increasingly diluted in favour of more rational modes of decision-making. Notwithstanding this fact, it is argued that the entrepreneur, to all intents and purposes, determines the management and organisational development of the firm. Thus, it is posited that the initial management practices adopted by a growing business may have a significant impact upon its capability to sustain growth. This Chapter therefore concludes that the capability of a firm to sustain growth is not only dependent upon the management practices initially adopted and implemented by the entrepreneur, but also the extent to which these practices can endow the firm with a sustainable competitive advantage.

Chapter 5

Defining The Research Problem

Chapter 5: Defining the Research Problem

This Chapter brings together the main conclusions of Chapters two, three and four to build a conceptual framework upon which the primary purpose of the research is based. The Chapter highlights that small business growth is an exceptional phenomenon that is determined by a wide range of internal and external factors. It also proposes however, that whilst external influences create favourable environmental conditions that are conducive to growth and survival, small business growth is often dependent upon the skills, characteristics and aspirations of the owner-manager. In addition, this Chapter argues that sustained growth is also determined by the ability of a firm's management to achieve a balance between the co-ordination of existing activities and the exploitation of emerging opportunities. To this end, the primary research objective is to discover how and why certain management practices are adopted by growth firms and whether these practices are perceived to endow the firm with a sustainable competitive advantage. In order that this research purpose can be addressed, a number of research questions are developed within this Chapter. These questions relate directly to the primary research objective and are used later in Chapter six to evolve an appropriate research strategy in which these questions can be satisfactorily explored.

5.1 Conceptualising the Entrepreneurial and Management Filter

Theory building relies upon the clarification and development of general constructs that essentially subsume a wide range of variables (Miles and Huberman 1994). Within the context of this research, these particulars have been discussed at length in the previous Chapters of this thesis. In the case of this study, it has been argued that entrepreneurial characteristics, aspirations and competencies exert a considerable influence upon management development in growth firms. Regardless of whether a research design is to adopt an inductive or deductive approach it is contended that the building of conceptual framework is an instrument that can effectively define the research problem of a study (Miles and Huberman 1994). Thus, it is argued that by taking the main conclusions that have arisen as a result of the review of the current literature, a conceptual framework should help define the research problem, a number of important research questions and assist the development of an appropriate research strategy.

5.1.1 Small Firm Growth as an Exceptional Phenomenon

The principles and ingredients of successful entrepreneurial activity have been the subject of a substantial amount of academic research and debate (Beaver and Jennings 1995). In this sense, small business growth and its perceived importance to wealth creation and economic prosperity, has been one of the principal topics of the small business literature for the past three decades. Ever since the initial claims made by the Bolton Report (1971) academics and policy makers have looked towards the small business sector as a primary source of economic development, innovation and growth. The conventional model of economic growth suggests that SMEs play an important yet secondary role in an economy supporting the activities of larger more established firms (Reynolds et al 1999). Nevertheless, the realisation that fast growing SMEs are major contributors to economic prosperity has seen these firms being increasingly attributed with a more central role in the development of wealth, innovation, employment and national competitiveness. In fact, more recently, researchers have acknowledged that due to rapidly changing and highly competitive markets, growth oriented small firms are starting to exert a significant influence on national economies (Yeh-Yun-Lin 1998).

There has been a substantial amount of literature generated in terms of why small firms grow and the phenomenon of growth has been approached from a wide range of theoretical perspectives. Whilst there is little doubt that these perspectives have added to our understanding of entrepreneurship and the factors that enable a firm to grow, the heterogeneity of the small firm sector has become a significant barrier to total comprehension. For example, industrial economics has continually produced a number of growth models to explain firm development (O'Farrell and Hitchens 1988)[1] yet its underlying premise that small and large firms simply occupy different points on the same corporate development continuum has long been exposed as a fallacy (O'Farrell and Hitchens 1988). Furthermore, it is argued that studies that attempt to liken the behaviour of the small firm to a large firm or view a small venture as simply a scaled down version of a larger organisation are also inappropriate (Wynarczyk et al 1993). In fact, Penrose (1995) posits that;

> *'the differences in the administrative structure of the very small and the very large firms are so great that in many ways it is hard to see that the two species are of the same genus' (p.19)*

[1] Note : The range of economic models used to explain business growth are discussed in Chapter 2.

Whilst the majority of these approaches have been subjected to these criticisms, as they fail to take into account that growth is not an automatic process, all agree that businesses that achieve growth differ from firms that remain small.

There are a wide range of factors that influence small business growth. It is contended that small firms that experience growth often enjoy favourable market conditions or are able to exploit localised or niche markets (O'Farrell and Hitchens 1988; Penrose 1995). Small firms however, operate in a number of industrial sectors and geographical locations and thus it seems apparent that growth can be achieved across a variety of markets and sectors (Smallbone et al 1995). Moreover, previous quantitative research has taken the dependent variable of growth and examined its relationship with a number of independent factors such as age, size, location, market orientation and exporting behaviour. These studies have revealed that in general younger smaller firms tend to grow more rapidly and that the support infrastructure provided by a given environment in terms of accessibility to market, the availability of resources and the lack of competition are all positively correlated with growth. These observations have led to the conclusion that external variants can have a significant impact upon small firm growth. Notwithstanding this fact, it is pertinent to note that whilst most national economies are dominated by small to medium sized enterprises (SMEs) the majority of these firms do not achieve growth (Gibb and Davies 1990; Storey 1994; Smallbone et al 1995; Barkham et al 1996). Research has been quick to point out that only a small percentage of small firms achieve notable growth. It is also reported that these growth firms are responsible for making a disproportionate contribution to wealth and employment creation (Birch 1979; Storey et al 1987; Storey et al 1989; Gibb and Davies 1990; Storey 1994; Westhead and Birley 1995; European Commission 1996b; Fischer et al 1997; Delmar and Davidsson 1997; O'Gorman 2000)[2]. Consequently, it is reasonable to surmise that even when external conditions are conducive to small firm growth, evidence supporting the premise that only a small number of firms achieve substantial growth, strongly suggests that internal influences are more significant determinants of small business growth.

5.1.2 The Entrepreneurial Filter

Previous Chapters have alluded to the proposition that the internal capabilities of the firm are instrumental to growth. The small firm, to all intents and purposes, is an

[2] Note : The impact of growth oriented SMEs on economies is discussed in Chapter 2.

extension of its founder or owner-management team. In other words, the nature of the entrepreneurial firm implies that it is difficult to divide the objectives of the firm from the personal aspirations of the owner-management team. This combined with the realisation that only a small percentage of firms actually achieve growth advocates the proposition that any analysis of venture growth cannot preclude the entrepreneur (Herron and Robinson 1993).

Within the context of this research it is important to define the entrepreneur. This however, is not a simple task as there is currently no universally accepted definition of the terms entrepreneurship or entrepreneur. The entrepreneur participates in the process of exchange for profit utilising personal attributes, knowledge and competencies to negate the effects of uncertainty (Knight 1921; Casson 1982; Stanworth and Gray 1991; Lambing and Kuehl 1997). Previous research has attempted to delimit entrepreneurship from a wide range of perspectives including its importance to an economy and as an alternative approach to management. There is also considerable literature pertaining to the identification of entrepreneurs or owner-management teams that have a greater propensity to grow their venture. Chapter three has reported that growth oriented owner-managers are more likely to display certain personality characteristics and have a number of influential background factors. Nonetheless, it is pertinent to note that whilst attributes such as the need for an internal locus of control, a tolerance of ambiguity and a high achievement motivation have been positively correlated with growth, such evidence remains inconclusive. Similarly, it is suggested that growth oriented entrepreneurs have certain demographic profiles and often possess a range of managerial and industrial experience, although once again, substantiation of these claims is still sadly lacking (Chandler and Hanks 1994).

What is evident is that the owner-manager or the entrepreneurial team is instrumental to firm growth (Jenning and Beaver 1997). Notwithstanding the myriad of perspectives utilised to define the entrepreneurial archetype in general terms the entrepreneur can be construed as an individual, or one of a group of individuals, who assumes the risk of developing a new venture (Gibb and Davies 1990). This definition however, is not meant to be exclusive and it is conceivable that an entrepreneur may also be an individual who acquires an existing business. In both instances there is an implication that the individual assumes a management role which involves the determination of a firm's strategic direction and scope. This inference provides further support for the proposition that internal influences are more critical to long term organisational growth. Moreover, it reaffirms the central role of the entrepreneur or owner-management team in realising small business growth.

It was submitted in Chapter 3 that the personality traits and core personal values of owner-managers are key determinants of entrepreneurial motivation and behaviour (Herron and Robinson 1993; Kotey and Meredith 1997). Personality characteristics however, are essentially mediated by motivation and moderated by ability (Hollenback and Whitener 1988; Herron and Robinson 1993). It is therefore evident that whilst a causal relationship exists between the characteristics of the entrepreneur and the performance of the small firm, the lack of any direct association between the two variables dictates that personality traits, viewed in isolation from other influencing factors, are insufficient predictors of small firm performance (Herron and Robinson 1993). It is therefore contended that entrepreneurial personality attributes are ancillary to behaviour. This behaviour essentially manifests itself in the decision-making process and influences not only what the firm does but also how its objectives are achieved. Consequently, it is surmised that any examination of small venture growth should seek to examine the decision-making process of the entrepreneur and its subsequent effect upon the strategic direction and scope of the firm. In fact, Gartner (1989) suggests that entrepreneurial research should abandon its attempts to delimit the entrepreneur in terms of personality characteristics and instead concentrate upon observing the behaviour of the entrepreneur. Moreover, it is perhaps pertinent to note that economists continue to utilise behavioural aspects such as decision-making, judgement, innovation and allocation of resources in defining the entrepreneurial process (Shackle 1966; Hebert and Link 1988). For example, Schumpeter (1934) defined entrepreneurship as a range of behaviours that initiates and co-ordinates the reallocation of resources in order to create value.

The motivations and abilities of the entrepreneur shape entrepreneurial behaviour (Herron and Robinson 1993; Kotey and Meredith 1997). These variables, combined with environmental perception (Penrose 1995) and other external and internal factors, directly influence the decisions made by the entrepreneur. It is therefore reasonable to assume that entrepreneurial behaviour is synomonous with the decision-making process and that entrepreneurial decision is inextricably linked to the strategy pursued by a small firm at any given time (Child 1972; Herron and Robinson 1993). Furthermore, it has been proposed that motivation is derived from the entrepreneur's evaluation of prior performance and the expectation of subsequent behaviour (Penrose 1995; Herron and Robinson 1993; Kuratko and Hodgetts 1998). In this sense, it is argued that whilst past performance provides an assessment of the owner-manager's strategic competence (Alchian 1950), subsequent behaviour is also determined by the self efficacy of the entrepreneur and how factors such as knowledge, experience and skills can facilitate the improved performance of the small firm (Mullins 1994). It is also maintained that the growth of the small firm is constrained by the environment (Slevin and Covin 1990). Moreover, it is purported that the value of the strategies implemented by the small firm in response to opportunities presented by the environment is exogenously determined (Penrose 1995). In a complex environment, rational optimisation cannot realistically govern decision-making. Instead, the human decision-maker only ever considers a very few alternatives and these options are usually influenced by personal aspirations, characteristics and competencies. Thus, the entrepreneur's perception of the environment limits the range of strategies that a firm can realistically pursue at any one time. It is therefore argued that the environment adopts two important roles in influencing small firm growth. Its central role is to provide the owner-management team with a series of perceived opportunities, which can be exploited, subject to internal constraints placed upon the venture. Its secondary role however, determines actual performance by evaluating the total value of the strategic decisions made by the entrepreneur or the owner-management team.

It can therefore be concluded that the strategic decision-making process within the small firm consists of the characteristics, values, knowledge, experience, motivation and competencies of the entrepreneur or owner-management team (Herron and Robinson 1993; Kotey and Meredith 1997). This ' entrepreneurial filter', in turn, combined with a plethora of external and internal influences[3], continuously governs the entrepreneur's perception of the environment and subsequent strategic behaviour of the small business venture (Penrose 1995; Stanworth and Curran 1976; Stevenson 1985). Finally, it is

[3] Note: Throughout this thesis, put in particularly in Chapter 2, it has been argued that both external and internal factors exert a considerable influence upon the decision-making process. Whilst external influences such as external stakeholders and the existence of support infrastructures do influence small firm growth, the fact that only a small percentage of SMEs experience notable growth despite the existence of favourable market conditions implies that internal factors are more central to growth.

submitted that the performance of the small firm is ultimately determined by the strategic competence of the entrepreneur and the extent to which entrepreneurial perception interprets the true nature of the environment (Penrose 1995).

5.1.3 The Emergence of the Management Filter

In addition to the impact it has on the performance of the small venture, it is posited that the 'entrepreneurial filter' also plays a significant role in facilitating sustained growth. In the initial stages of growth the characteristics, competencies and preferences of the entrepreneur govern the strategic direction of the firm. Thus, external and internal environmental stimuli continually change the competitive stance of the business in order to satisfy the need of its stakeholders. This adaptation and ability to respond to changes in the environment is due in part to the new managerial tasks, procedures and systems introduced to cope with the pressures of firm development and growth (O'Farrell and Hitchens 1988).

Chapter four argues that success for any firm is dependent upon its ability to establish a valuable strategic position, whereby a unique bundle of competencies, resources and capabilities are deployed and managed in a dynamic fashion to ensure that the needs of a firm's internal and external environment are satisfied (Thompson 1999). Sources of competitive advantage are finite. Certain bundles and combinations of capabilities however, do provide a firm with an opportunity to sustain a particular advantage for a substantial period of time. In these circumstances, firms are able to conceive of and implement strategies that rely on combinations of valuable resources and competencies that prove difficult to imitate or costly to acquire (Barney 1991; Foss 1996). Nonetheless, despite the longevity of these advantages it is important to recognise that as soon as a firm displays a distinct competence, competitor action will mean that the value of a particular advantage will be eroded over time. Furthermore, the value of the strategy will also depend on the nature of the environment. Given that the environment in which firms operate is, to all intents and purposes, dynamic, it is likely that the value of a particular strategy, competence or combination of resources may also diminish over time (Foss 1996). For example, it is reported that whilst many smaller firms enjoy the benefits of emerging and developing markets that experience high growth (O'Gorman 2000), sustained success is increasingly determined by the ability of a firm's management to effectively manage its competencies and resources in response to environmental change.

Effective strategic management therefore implies that a firm is capable of achieving congruence between its environment, its resources and the preferences of its owner-management team (Thompson 1999). In this sense, it is argued that the environment is a source of opportunities and threats whereas resources essentially constitute an organisation's strengths and weaknesses (Barney 1991; Mintzberg and Quinn 1996; Thompson 1999). These strengths and weaknesses, which in turn can be construed as the strategic capabilities of the firm, represent the mechanism by which the firm can achieve and sustain competitive advantage (Thompson 1999).

The strategic direction and growth rate of the firm is also dependent upon the accumulation of knowledge and resources over time (Penrose 1995). Furthermore, it is submitted that the accumulation of resources and knowledge removes certain limits placed on the firm in terms of expansion (Penrose 1995). The management choices made by the entrepreneur however, have a significant effect upon the strategic scope of the firm (Foss 1996). The accumulation of resources and knowledge represents, in many cases, an irreversible investment by the small firm. This investment provides that whilst the firm is able to expand and develop activities close to its original remit, certain opportunities presented by the environment cannot be realised through the process of organic growth (Penrose 1995; Foss 1996). Instead, these opportunities are essentially outside the capabilities of the entrepreneur and can only be secured at considerable expense to the firm (Penrose 1995). This option however, is not commonly available to the majority of small firms.

It is the role of management to identify, integrate, adapt and re-deploy these capabilities in response to environmental uncertainty and change (Wernerfelt 1984; Penrose 1995). It has been established earlier in this Chapter that the management of the small firm essentially expands and contracts with the characteristics and motivations of the entrepreneur (Jennings and Beaver 1997). In the initial years of venture formation, the primary role of management concerns the building of a resource platform that is flexible enough to enable the firm to establish a good market position. As the firm grows, the co-ordination of resources and the communication of strategic goals becomes increasingly difficult. At this juncture, the continued success of the firm is dependent upon the introduction of new layers of management, procedures and systems to manage the growth process. In many cases, the lack of management skills and experience proves to be detrimental to the growth aspirations of the entrepreneur (Chandler and Jansen 1992; Beaver and Jennings 1995). Moreover, the preferences of the entrepreneur can also inhibit growth. Even if the initial success of a small business venture allows a degree of separation between the entrepreneur and the management function, the authoritarian power of the entrepreneur provides that rational decision-making associated with the traditional management process, can frequently be overridden (Jennings and Beaver 1997). Given that the growth objectives and ambitions of the entrepreneur can change over time (Bamberger 1983; Stevenson 1985; Kao 1989), it is apparent that sustained small business growth is essentially driven by the entrepreneur's continued commitment to expansion (Smallbone et al 1995). Thus, it is conceivable for the entrepreneur to suppress growth-related competencies that exist within the firm in order to satisfy other personal objectives such as independence and control (Jennings and Beaver 1997). It can therefore be concluded that the managerial preferences and deficiencies of the entrepreneur are a significant barrier to the sustained growth of the small firm (Penrose 1995; Charan et al 1980; O'Farrell and Hitchens 1988; Jennings and Beaver 1997).

It is submitted that the sustained growth of the small business venture is also determined by the management decisions made by the entrepreneur in terms of resources and knowledge accumulation. It has already been stated that entrepreneurship is an alternative approach to management (Stevenson 1985; Kao 1989) and that the behaviour of the entrepreneur is subject to change as the small firm experiences growth (Stevenson 1985; Stanworth and Curran 1976; Kao 1989). In fact, the continued expansion of the firm is not only dependent upon the ability of the owner-manager to make the effective transition from an entrepreneurially to a professionally managed organisation (Charan et al 1980; Flamhotz 1986) but also the extent to which management decision inhibits the subsequent exploitation of environmental opportunities (Penrose 1995; Foss 1996). In other words, it can be surmised that entrepreneurship and growth are essentially shaped by the managerial ability of the entrepreneur to ensure that resources are effectively allocated between the maintenance of existing activities and the development of new opportunities (Wernerfelt 1984; Rumelt 1984).

There is an increasing amount of literature pertaining to the management practices utilised by high growth firms. In general, this literature has maintained that successful firms are more inclined to develop a managerial base and view the implementation of management processes as a strategic imperative. In addition, the management literature has also highlighted that practices such as human resource management, planning and control, finance and marketing are all positively correlated with superior performance (Kinsella et al 1994; Smallbone et al 1995; Balje and Waasdorp 1999). Key success factors however, differ significantly between industries and markets and consequently there is no common formulae that can be consistently applied to either strategic positioning or the management of growth (Gadeene 1998; Thompson 1999). For example, Gadenne (1998) argued that considerable differences existed between the key success factors of various industries. In a study of 369 firms across three industrial groupings Gadenne (1998) discovered that successful firms in the retail industry operationalised managerial practices that enable them to create value for money strategies whilst manufacturing firms were more likely to implement processes that led to either a cost or quality advantage. Furthermore, he found that service firms often had progressive and innovative human resources management practices to engender service related advantages.

It is therefore evident that that sectoral differences, firm heterogeneity and the preferences and capabilities of the owner-management team play a significant role in determining the managerial competencies required to achieve sustained growth. Research has yet to adequately address why certain skills are implemented and more specifically, how particular external and internal influences shape the development of these skills, competencies and capabilities over time (Herron and Robinson 1993). Research therefore needs to examine the decision-making process of the entrepreneur and how management decision affects the performance and subsequent growth of the small firm (Mullins 1994). Thus, whilst effective management is seen to be a common characteristic of a high growth firm, there is a dearth of literature exploring the willingness, ability and perceptions of management to identify which strategies, routines and processes are sources of sustained competitive advantage.

5.1.4 Conceptualising the Entrepreneurial and Management Filter

The influence of the entrepreneurial and management filter upon small firm performance and growth discussed in sections 5.1.1, 5.1.2 and 5.1.3 is illustrated in Figure 5.1. The conceptual framework developed in this thesis maintains that as the firm grows, a 'management filter' emerges which is initially shaped by the 'entrepreneurial filter'. The 'management filter' represents the evolution of the firm in terms of organisational structure and the adoption of management processes and practices[4]. Given that this filter's evolution is determined in the first instance by the entrepreneur or owner-management team it seems reasonable to surmise that over time the 'management filter' will have an increased impact upon strategic decision-making in the growing small business. This represents, to all intents and purposes, a rational shift to a more professionally managed firm[5]. Nevertheless, it is important to note that the influence of the 'management filter' upon strategic decision-making depends on the filter's perceived value in relation to decisions that concern the strategic direction and scope and development of the firm.

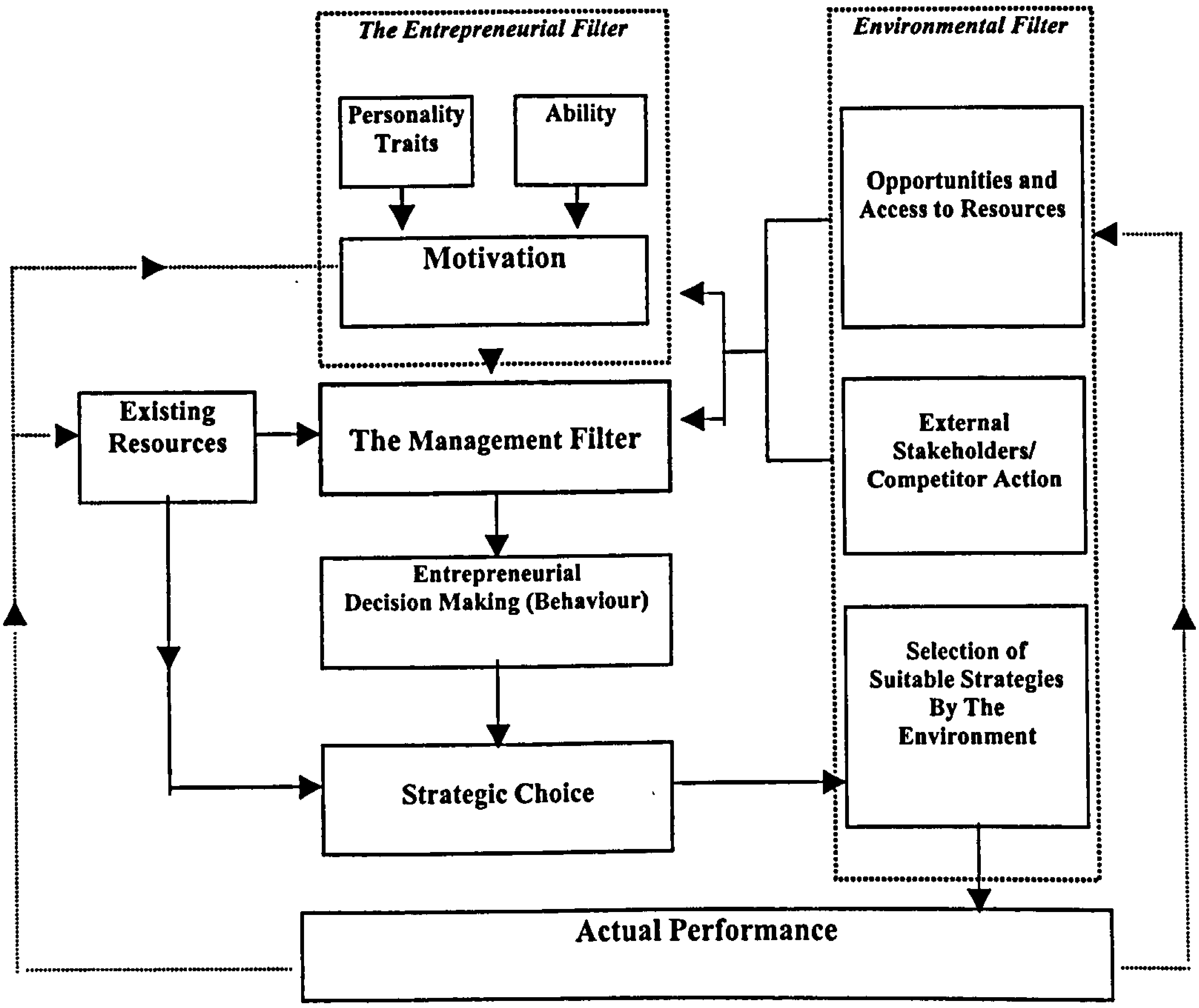

Figure 5.1: Conceptualising the Entrepreneurial and Management Filter and Small Firm Growth

[4] Note: As previously discussed in Chapter 2, Section 2.3.3 growth cannot be construed as either a linear or automatic process. Thus, the conceptual framework does not make any assumptions concerning the growth trajectory or patterns of small firms.

[5] Note: Management transition is discussed in Chapter 4

The framework also embraces the concepts of strategic choice and environmental determinism discussed in Chapter three, section 3.2 and Section 5.1.2, acknowledging both the influence of entrepreneurial choice on firm direction and the environment on firm performance. This framework has been developed to underpin this thesis and is utilised to define a number of research questions to address the primary research purpose

5.2 The Research Questions

The creation and development of a small business venture is a unique process (Jennings and Beaver 1997). In this context, it is argued that entrepreneurs and owner-management teams do not react to internal and external environmental factors homogeneously. The research embraces the concepts of firm heterogeneity, bounded rationality, dynamic competition and firm specific attributes as sources of sustained competitive advantage. This position is clearly stated within the theoretical framework.

The primary purpose of the research is therefore to investigate how firms sustain growth through the introduction of management practices and processes. From the theoretical framework developed in section 5.1, the research will examine the underlying influences of how and why fast growing firms adopt management practices. In particular the research attempts to examine the idiosyncrasies of the decision-making process and reveal the extent to which entrepreneurial perception influences the development of management within the growing venture. In addition, the research also investigates the extent to which decisions to adopt certain management processes affect the firm in terms of its subsequent growth and ability to develop competitive advantages that are sustainable.

5.2.1 The Entrepreneur and Strategic Decision-making

The conceptual framework developed in section 5.1 (and illustrated in figure 5.1) proposes that the owner-manager or entrepreneurial team is instrumental to the process of growth and that an idiosyncratic entrepreneurial and managerial filter shapes organisational development. Within this context it has been argued that the personality characteristics, experiences and competencies, influence firm growth. Indeed, research has consistently cited that entrepreneurs who possess specific personal attributes tend to manage growth-oriented businesses (Begley and Boyd 1987). The trait perspective for example contends that firms that are more likely to grow can be identified simply from the characteristics of their founder or owner-management team. From this psychological perspective, firm success is attributed to the unique psychological set of its principal actors (Beaver and Jennings 1995). It is also maintained that entrepreneurial success is derived from a variety of background influences. Conversely, the sociological paradigm focuses upon explaining performance in terms of gender, age, marital status and education. This paradigm however, like the psychological paradigm, has yet to discover anything conclusive and merely confirms the view that men and women from a wide range of backgrounds create and manage both unsuccessful and successful business enterprises (Beaver and Jennings 1995). Research has therefore refuted the argument that the entrepreneur is a deviant personality and concluded that in general it is difficult to determine whether a particular combination of background or demographic factors are conducive to venture growth (Chandler and Hanks 1994). Nevertheless, it is apparent that due to the demands placed on the firm during the process of growth, entrepreneurs or owner-management teams that possess previous managerial, industrial and technical experience are often better furnished to deal with the complexities of organisational growth (O'Farrell and Hitchens 1988; Penrose 1995; Beaver and Jennings 1995; Lambing and Kuehl 1997; Tether 1997). It has already been established that the entrepreneur and the firm are indistinguishable (O'Farrell and Hitchens 1988; Herron and Robinson 1993; Kotey and Meredith 1997). From this rationale, a diverse range of characteristics, personal values and experiential factors have been identified as being precursory to growth[6]. Research however, has still to substantiate these claims but what is clear is that personality characteristics, motivations, experiences and competencies exert a considerable influence upon the strategic decision-making of the growth firm. Thus, the research aims to ascertain;

1. *How do personality and background characteristics of the owner-manager or entrepreneurial team influence the adoption of management practices in growth firms?*

This research question essentially attempts to identify the significant components of the 'entrepreneurial filter' and discover how these factors influence the decision-making process. In this sense, it is contended that to comprehend the origins of how and why management practices are adopted by growing ventures it is necessary to understand how certain personal and experiential factors influence and shape strategic decision-making in

[6] Note: These characteristics are discussed at length in Chapter 3.

relation to management development. Furthermore, the question adopts the position that changes in the business environment and the organisation itself will ensure that the dominance of various factors are subject to continual change (Beaver and Jennings 1995). As the relative importance of these factors ebbs and flows, it seems reasonable to surmise that continued success is dependent upon the firm's ability to achieve a congruence between its aspirations and its ever changing competitive environment. There are two environments that establish the framework in which a firm operates: its external environment consisting of suppliers, customers and competition; and its internal environment referring to its complexity and the extent of its resources (O'Farrell and Hitchens 1988). Consequently, also explores the determinants of entrepreneurial perception and offers an explanation as to the relative importance of internal and external environmental factors in determining the adoption and implementation of management practices over time.

5.2.2 Management Development and Growth

The research is concerned with how and why growth firms adopt certain management practices to support and encourage the development of the venture and how these practices endow firms with competitive advantage. Previous studies have alluded to the fact that certain management practices tend to be present in high growth firms and that in some cases the absence of particular management practices are precursors to failure. Chapter four supports the view that the implementation of management practices such as planning and control, finance and marketing are all positively correlated with growth (Kinsella et al 1994; Smallbone et al 1995; Bajle and Waasdorp 1999). Whilst research has been relatively quick to endorse these practices as mechanisms by which a firm can assist the growth process, there is a dearth of literature relating to why management practices are utilised by high growth firms to achieve superior performance. In addition, differences between industries and markets imply that it is difficult to state with any certainty whether these management practices can be generalised across these boundaries or are contextually specific to a particular region, industrial sector or market. It is therefore contended that as firms experience growth, management development within the context of the growth firm is unique. In this sense, it is submitted that much in the way the entrepreneurial filter governs the strategic direction of the firm, this filter also plays a significant role in determining what management practices are implemented by the owner-management team to facilitate growth. The research therefore attempts to answer;

2. *Why do growth firms adopt certain management practices?*

Historically, research into managerial action has been limited. One study conducted by Milne et al (1982) for example focused attention upon the ways in which owner-managers responded to personal and business stimuli. This research maintained that business strategies are generally determined by what the owner-manager thinks he can, or wishes to achieve in light of an array of perceived opportunities and constraints (Milne et al 1982; O'Farrell and Hitchens 1988). This study further advocates the use of the entrepreneurial filter as a suitable framework of analysis and more importantly provides support for the examination of how management practices emerge in growing organisations. Within the research question it is not sufficient to simply investigate how growth firms adopt management practices. Instead, an attempt must be made to ascertain why these practices are utilised by owner-managers and entrepreneurial teams. Thus, the research issue here is not one of mere identification and description but an examination of how the entrepreneurial filter affects the adoption rationale. In other words, the research question strives to answer how and why growth firms adopt certain management practices.

5.2.3 Achieving and Sustaining Competitive Advantage

Closely related to this theme is the extent to which these management practices endow growth firms with a sustainable competitive advantage. Simple models of firm growth have postulated that a firm cannot commence a new growth phase until it achieves a business platform that enables it to overcome certain growth impediments (Greiner 1972; Hjern et al 1980; Scott and Bruce 1987; O'Farrell and Hitchens 1988). These incremental models identify management as a consistent barrier to growth, suggesting that the effective accumulation and allocation of resources essentially determines the ability of the firm to sustain growth. Moreover, the theoretical framework posits that firm success is determined by the extent to which a business can establish a superior strategic position in its chosen market in relation to its competition. Consequently, it is necessary for the research to identify and explain how certain management practices provide growth firms with the opportunity to establish sustainable competitive advantages.

The research therefore endeavours to observe;

3. *To what extent have the management practices adopted by growth firms secured a sustainable competitive advantage?*

Within this investigation, the research will also seek to investigate how owner-managers decide upon the development of management practices and whether the delegation of authority can improve firm competitiveness. The research will examine the extent to which entrepreneurs or owner-management teams consider certain advantages to be sustainable in the long run. It is therefore contended that this research question will uncover the importance of certain management practices to small firm growth in terms of their ability to augment and develop sustainable competitive advantages.

5.2.4 Management and its Influence upon Strategic Decision-making

As the firm grows there is an inherent need to develop an administrative framework to effectively manage an increasingly complex organisation. Chapter four has stated that during the initial phases of growth, it is possible for the entrepreneur to undertake the majority of managerial tasks necessary for firm survival. The complexity of growth however, implies that the co-ordination of key resources and the communication of strategic goals become increasingly difficult to manage. At this point, it is argued that there is need for the firm to undergo a managerial transformation in which entrepreneurial management practices are replaced by more professional systems and rational management decision-making procedures. This proposition is dependent upon the assumption that the entrepreneur or owner-management team is a rational decision-maker capable of implementing new management practices and layers of administration to assist firm development. Evidence provided in Chapters two, three and four suggests that growth is inextricably linked to the aspirations of the owner-manager or entrepreneurial team. Thus, in order for a firm to continually grow, growth must be construed as a strategic imperative. Previous research has concluded that growth is an exceptional occurrence. It is therefore evident that growth is not only determined by a myriad of internal and external factors but also by the extent to which the owner-manager or entrepreneurial team is willing to pursue growth. In many circumstances, the entrepreneur acts as a considerable constraint to growth, suppressing decision-making competencies in subordinates in order to maintain existing levels of independence and control (Jennings and Beaver 1997). Nevertheless, it is submitted that in instances where the development of management is perceived to be complementary to the growth process, the emergence of a management filter exerts an increasingly significant influence upon strategic decision-making. The research is therefore geared to pondering the extent to which this emerging filter, driven primarily by the entrepreneurial filter, has upon the subsequent decision-making of the growth firm. Or more specifically;

4. *How do the management practices adopted by growing firms influence subsequent strategic decision-making?.*

Thus, this research question examines how the management practices implemented by a fast growth firm influences subsequent growth and development. Furthermore, the research question attempts to discuss how the decision-making process within a growing firm changes in relation to its managerial evolution. The question therefore addresses the issues raised in the theoretical framework and attempts to explain how and why the management practices adopted by growth firms can have a detrimental, as well as positive, effect upon the ability of the firm to entertain future growth.

5.3 Conclusion

This Chapter has developed the conceptual framework on which the research is based. A review of the existing literature on entrepreneurship, small business growth and management has revealed that small firm growth is not only an exceptional phenomenon but also unique in terms of management and structural evolution. Within the firm decision-making is primarily controlled by the entrepreneur or owner-management team. This 'entrepreneurial filter' determines the development of the firm as well as the strategies it adopts to compete effectively within its chosen environment. One aspect of this development process is the transition some small firms make from being an entrepreneurially to a professionally managed organisation. This evolution suggests that the management layers and practices implemented by the owner-manager will have an increasingly significant effect upon the future strategic direction and scope of the growth firm. Combining this observation with the principles of differential advantage, it has been argued that little is known about whether the management practices adopted by entrepreneurs endow the growing firm with a sustained competitive advantage. This dearth of knowledge represents the research problem to be examined by this study. To assist the investigation as to how and why certain management practices are adopted by growth firms, the primary research purpose of the thesis has subsequently been divided into four research questions. It is therefore concluded that these questions essentially define the research problem and provide the platform on which an appropriate research strategy can be formulated to address the study's primary research objective.

Chapter 6

Research Design & Methodology

Chapter 6: Research Design and Methodology

This Chapter discusses the design of an appropriate research strategy to investigate how and why growth firms adopt particular management practices. Following on from the development of the conceptual framework and research questions in Chapter five, this Chapter describes the development of a methodology from which the phenomenon can be studied. The Chapter reaffirms the importance of adhering to the primary research objective and provides a justification as to why a qualitative approach is a suitable methodology to achieve this objective. The methods used to identify and investigate the impact of the entrepreneurial and management filter upon strategic decision-making and management adoption in growth oriented firms is also outlined.

6.1 Developing the Research Methodology

In any effort to construct a coherent methodological framework to examine aspects of entrepreneurship or small business management, one of the most significant problems to be overcome is that the research area remains largely multi-disciplinary (Jones-Evans 1994). Historically, entrepreneurship has been investigated from a wide range of perspectives including sociology, economics, psychology and management studies (Bygrave 1988, 1993; Gartner 1989). The complexity of the issues surrounding small business management and entrepreneurship has resulted in a considerable amount of inconsistency and methodological discrepancies. In addition, the differing emphasis given to various facets of entrepreneurship and the lack of an agreed definition has meant that research has remained mostly context specific. This is not unsurprising as it is argued that these difficulties exist as entrepreneurship is still in its infancy within management science paradigm (Bygrave 1988, 1993; Jones-Evans 1994). Thus, it has yet to establish a range of distinctive methods and theories and often relies on the constraints imposed upon it by other disciplines. In fact Bygrave (1988) suggests that:

> *'If we force sophisticated models from advanced fields such as economics on to entrepreneurship, we may be investigating contrived problems because they can be analysed with complicated mathematical terminology. Instead, we should be studying central questions with appropriate tools, whether they be simple or complex' (p. 2)*

It is therefore evident that the methodologies utilised by differing disciplines may inhibit the primary research purpose. Nonetheless, it is important to acknowledge that in order to present a research argument, an attempt must be made to build a methodological structure to any research approach (Jones-Evans 1994). Moreover, it is pertinent to note that despite Bygrave's (1988) advocation for a more exploratory approach to entrepreneurial research, studies, especially in the United States, are still dominated by the quantitative paradigm. It is therefore necessary to construct a research design that enables the data collected from the field to be connected to the principal research topics contained within this study so that meaningful conclusions can be extracted (Yin 1994). In this sense it is argued that a competent research design will ensure that problems relating to poor methodology are avoided (Yin 1994). Thus, it is submitted that the research will use the approach suggested by Paulin et al (1982) to develop the appropriate methodology for examining the research problem. This approach has since been utilised by other researchers, most notably by Jones-Evans (1994) in a study of the extent to which the previous occupational background of founders influenced the strategies of small, UK based, technology firms. The approach suggested by Paulin et al (1982) can be divided into the following five distinct steps:

- Research Purpose
- Research Strategy
- Research Design
- Data Collection
- Data Analysis

Within this approach the research purpose or research questions provide a focal point from which suitable methodologies can be drawn out in order to achieve the principal aims of the research.

6.2 Research Purpose

It is reported that the definition of the phenomenon to be investigated usually assists in the determination of the methodologies required to satisfy the primary research questions (Jones-Evans 1994). The thesis has so far examined small business growth from a myriad of viewpoints, but has paid particular attention to the influence exerted by the entrepreneur upon the adoption and implementation of management techniques and processes. The research has designed a theoretical framework and a number of research questions to explore this occurrence. Furthermore, the research has developed the concepts of the entrepreneurial and management filter as possible instruments by which the adoption of management practices and their subsequent effect upon strategic decision-making can be explained[1]. Perhaps more significantly the research is seeking to ascertain why certain management practices are being implemented by growth firms and the extent to which these processes can endow a firm with a sustainable competitive advantage. The research strategy therefore reflects this aim.

6.3 Research Strategy

It has already been established that the strategy to be adopted should best reflect the principal purpose of the study. Consequently, the methodology adopted should also match the main objectives of the research (Jones-Evans 1994). The lack of research relating to the reasons behind the adoption and implementation of management practices suggests that the research should be largely exploratory in nature and that any results should be inducted rather than deducted. Deduction implies that a theory already exists whilst induction is concerned with theory generation from a number of observed cases (Gilbert 1993). Given that a suitable theory to explain why growth firms adopt management practices has yet to be formulated, the research must observe and investigate this relationship in a number of different cases in order to construct a general theory to cover all cases. Jones-Evans (1994) argues that where there is a lack of prior knowledge on a particular occurrence the qualitative approach 'grounded theory' developed by Glaser and Strauss (1967) may offer the research some assistance. This approach exists within an interpretative paradigm and has often been compared to phenomenology (Denzin 1971). Pure grounded theory however, should only be applied to situations where no theory currently exists, as theory generation is grounded in the data and as a result is directly defined from the study of the phenomenon it represents (Denzin 1971; Strauss and Corbin 1990; Jones-Evans 1994). The fact that all research is essentially 'theory dependent' implies that pure empirical research, to all intents and purposes, is impossible (O'Brien 1993). In this context, it is maintained that even at the most basic level researchers undertake studies based upon a number of theoretical assumptions posited in existing literature (O'Brien 1993). Thus, in the case of this study, whilst theory has yet to sufficiently explain how and why management practices

[1] Note: See Chapter 5.

are adopted by growth firms, research currently exists on what practices have been adopted and how entrepreneurial influence has a significant impact upon firm development.

Nevertheless, it is apparent that the research would benefit from a systematic empirical approach in which theory is inducted from the data collected. Moreover, this approach would also prove to be more credible than a speculative deductive theory (Jones-Evans 1994). Historically, inductive qualitative approaches have acted as precursors to larger quantitative studies yet there have been instances where studies have utilised these techniques to explore important aspects of entrepreneurship and small business development (Jones-Evans 1994). For example, a recent study by Fischer et al (1997), in which the affects of founder experience upon performance were examined, employed an inductive qualitative methodology. Researchers investigating the various components of organisational behaviour have also favoured a qualitative methodology (Cassell and Symon 1994). Qualitative approaches, unlike quantitative methodologies, are more concerned with emergent themes and idiographic descriptions rather than a static analysis of the relationships that exist between variables within a highly structured framework (Bryman 1992; Cassell and Symon 1994). Thus, whereas the majority of studies conducted have favoured a quantitative survey-based methodology, this paradigm is unable to provide the researcher with the required data richness on which a theory can be built regarding why and how certain phenomena occur (Jones-Evans 1994). In addition, Bygrave (1993) suggests that to fully comprehend the process of entrepreneurship it is necessary to observe and examine the subject within its particular context. Consequently it is contended that:

> *'one of the cornerstones of the qualitative approach is its acceptance of the inherent subjectivity of the research endeavour' (Cassell and Symon 1994, p. 4)*

The adoption of the qualitative methodology also reflects the primary objectives of this study. Previous research investigating the phenomenon of small business growth has tended to be quantitative in nature looking to establish cause and effect relationships between a wide range of independent variables and the dependent variables of small firm performance and growth (Churchill and Lewis 1986; Wynarczyk et al 1993; Jones-Evans 1994). As an illustration, it is perhaps pertinent to note that the majority of studies that emanate from the United States utilise quantitative techniques to investigate small business management and growth. In the past, studies that have attempted to equate certain psychological and sociological factors to firm performance have achieved limited success (Begley and Boyd 1987; O'Farrell and Hitchens 1988; Kotey and Meredith 1997; Lambing and Kuehl 1997). Moreover, previous research has utilised small matched samples to reveal differences between the organisational and managerial development of growth and non-growth firms (Storey et al 1989; Kinsella et al 1994). Studies have also examined whether growth firms are more likely to implement certain management practices such as marketing, finance and planning (Kinsella et al 1994; Smallbone et al 1995; Balje and Waasdorp 1999).

A quantitative approach however, is unlikely to produce meaningful interpretations of how and why management practices are adopted over time. Moreover, given that the main purpose of the study is not to contrast and compare the management adoption practices of growth and non-growth firms a match sampling technique would also prove to be inappropriate. A quantitative methodology essentially restricts data collection to a single source of information whereas a qualitative approach ensures that data is usually obtained from a variety of sources (Yin 1994). It is commonly accepted that individual or organisational behaviour is not perceived to be the outcome of a finite set of discrete variables but instead a lived experience within a particular social setting (May 1993). Thus, whilst quantitative methods may be able to assess that a temporal change has occurred they cannot explain how and why this change took place (Cassell and Symon 1994). Within the field of entrepreneurship and small business management, commentators such as Gibb (1990) have called for increased efforts to delimit the field in terms of qualitative research, suggesting that qualitative research is an undervalued approach in explaining the social realities of entrepreneurship. In fact, Gibb (1990), Gibb (1998) and Stokes (2000) have explicitly stated that the differences in definitions and terminologies between small and medium sized enterprises adversely affect the overall value of large quantitative surveys. Furthermore, they argue that unless attempts are made to improve theory through inductive reasoning based on quality data, these factors will continue to be major sources of academic ignorance and confusion.

6.4 Research Design

Notwithstanding the notable contributions made by existing small business literature, research has yet to address how and why management practices are adopted by growth firms. Stage models of growth have concluded that survival and growth is often dependent upon firms adopting certain management practices to overcome particular barriers to growth (Churchill and Lewis 1983; Scott and Bruce 1987). Nonetheless, the fact that the majority of small firms do not grow despite the existence of management implies that decisions made by the entrepreneur may have an effect upon the ability of the firm to grow. In this sense, the research posits that entrepreneurial influence in terms of personal attributes, aspirations and competencies is central to the managerial development process within the growing business. As a result, this thesis has developed in Chapter five the concepts of the entrepreneurial and management filter to help explain this process.

The research also seeks to identify whether the adoption of certain management practices furnish growth firms with a sustainable competitive advantage. The theory of sustainable competitive advantage is strongly rooted in the resource based view and competence perspective of the firm (Foss 1996). Historically, these perspectives have drawn on large firm analysis, attempting to trace how particular competences and sources of sustainable competitive advantage emerge (Prahalad and Hamel 1990; Foss 1996; Knudsen 1996). Nevertheless, there has been some recognition of this approach within the small business arena and the work of Norton (1999) and Mishina et al (1999) advocates the use of the resource based perspective of the firm to investigate sources of sustainable competitive advantage in small ventures.

The purpose of this study can therefore be divided into two distinct aims. Firstly, the research seeks to develop the concepts of the entrepreneurial and management filter in terms of their effect upon small firm development. Secondly, this study is also concerned with how and why certain management practices are adopted by growth firms and the extent to which these practices prove to be sources of sustainable competitive advantage. These aims are explored through the research questions discussed in Chapter five.

The choice of a qualitative research methodology offers the study a number of appropriate research designs from which to choose in order to examine the research question (Paulin et al 1982; Jones-Evans 1994). Bryman (1992) submits that there are essentially four research designs available to qualitative research. Firstly, the design could involve a situation whereby the researcher is a full participant in the research study in a small number of organisations. Secondly, the researcher may wish to utilise a more objective approach within this context, occupying a detached role in the study. In this type of design, the researcher is situated in an indirect observation role supplementing overall data collection with a number of informal interviews and the analysis of company documentation to elicit understanding. Thirdly, the researcher can opt for in-depth interviews in a small number of organisations to try to comprehend a particular phenomenon and support these findings with the analysis of company documents. Finally, the research study can simply seek to conduct interviews in a larger number of organisations (more than ten) and in line with the data collection methods used by the other designs, also collect relevant company documentation to support the data gathered during the interview. It could be submitted that an ethnographic approach could have been utilised. Whilst this approach may have yielded more detail and insight into the perceptions of owner-managers and the reasons behind the adoption of various management practices, it is argued that ethnography does not permit comparative analysis across firms (Fischer et al 1997). Consequently, given that the primary research purpose of this study is to add to existing theory, a 'theory-driven' qualitative methodology is justified (Miles and Huberman 1994).

This study also seeks to examine the managerial development of a growing venture from a relatively new perspective, there is a need to ascertain the extent to which the findings of the research can be generalised. In these circumstances Jones-Evans (1994) advocates the use of a multi-site research design. This design applies to studies that wish to examine the research question in a number of different contexts. This rationale stems from evidence to suggest that whilst the richness of data gathered through a multi-site approach is sacrificed, the opportunity to study a greater number of organisations increases the potential generalisability of the research (Bryman 1992). In other words, when a particular occurrence arises in more than one organisation, the phenomenon cannot be construed as being totally idiosyncratic and thus, is more likely to be generalisable (Bryman 1992; Jones-Evans 1994). In fact, Miles and Huberman (1984) contend that:

> *'having multiple sites increases the scope of the study and thereby the degrees of freedom. By comparing sites or cases, one can establish the range of generality of a finding or explanation and at the same time pin down the conditions under which that finding will occur.' (p. 151)*

The use of multiple cases therefore adds confidence to the findings (Miles and Huberman 1994). By looking at a range of contrasting and similar cases it is possible to strengthen the validity and the stability of the research finding through replication (Yin 1994). Nevertheless, it is important to recognise that the issue of generalisability should not be extended outside the sample. The use of a multi-site design does not make the findings representative of a larger universe and thus it is pertinent to note that the adoption of a qualitative research methodology implies that the research design is conceptual or theory driven (Miles and Huberman 1994; Cassell and Symon 1994). Consequently, the utilisation of this particular methodology enables the research to make analytical rather than sample-to-population generalisations (Bryman 1992).

Given that little research exists examining how and why growth firms adopt management practices, it is clear that one of the main problems of the research is an apparent lack of methodological grounding. Whilst there is a growing recognition that in order for researchers to adequately address how organisations emerge and grow (Gibb 1990; Gartner et al 1992; Fischer et al 1997), attempts to explore entrepreneurial perceptions, processes and experiences infrequently appear in the small business management literature. It is therefore evident that due to the continued dominance of the quantitative paradigm in entrepreneurial and small business growth research, there is a dearth of qualitative research in this particular area. As a consequence, it is necessary for the research design to integrate a degree of flexibility within its data collection techniques in order to account for a wide range of differing aspects that could assist the explanation of the phenomenon under study (Jones-Evans 1994). Furthermore, one of the principal outcomes of this research study is to add to the existing theoretical base that exists in regard to small business management and growth. In these circumstances it is often appropriate to divide the study into a number of phases (Glaser and Strauss

1967; Strauss and Corbin 1990). Thus, a preliminary study of the phenomenon under examination can often prove useful in the development of the subject matter (Jones-Evans 1994). In this sense, it is argued that this strategy enables the researcher to review the conceptual framework and make any necessary adjustments or modifications. This research adopts the approach employed by Jones-Evans (1994), deciding to collect the data in two distinct phases:

Phase 1 – Three, largely unstructured, group interviews to assist the determination of the significance of management development in growth firms and to establish whether the existing conceptual framework required modification

Phase 2 - A series of semi-structured interviews with the owner-managers or entrepreneurial team of growth firms, supported by the analysis of company documentation and structured orientation interviews to ascertain the key characteristics of the firms under study.

By implementing this two stage qualitative methodology it was possible to focus upon the specific issues that need to be addressed in terms of how and why certain management practices are adopted by growth firms. Moreover, a multi-staged research design provided an opportunity to examine the research phenomenon more comprehensively in order to assist theory development (Jones-Evans 1994).

6.4.1 Data Gathering Techniques

In this study of management practices adopted by growth firms in Wales it was decided that the most appropriate research collection method would be a series of interviews with the owner-managers of growth oriented companies. This approach is particularly suitable to exploratory research in, which there is an inherent need to discover a range of emergent themes in relation to the research problem. In fact, Oppenheim (1966) argues that one of the principal advantages of interviews is flexibility. Furthermore, King (1994) posits that in the interview a skilled researcher has the opportunity to ensure that the respondent fully understands the questions being asked and is able to address any problems as they arise.

The qualitative interview is also ideally suited to investigating topics in which differing levels of meaning are required (King 1994). Moreover, the interview is usually the preferred instrument of potential respondents as most individuals have some idea of what an interview involves. Despite these advantages, it should be noted that the interview is a time consuming research method not only for the researcher but also for potential respondents (King 1994). This, combined with the large volumes of data collected can affect the extent to which the aims of the study are addressed and consequently there is an incessant need to ensure that the data analysed contributes to the exploration of the research problem (May 1993). Regardless of these potential drawbacks, the interview continues to be one of the most popular and flexible instruments available to the qualitative paradigm and has been used by a considerable number of researchers to explore aspects of organisational development (King 1994). Thus, it seems appropriate to adopt the interview as the principal research instrument for a study that investigates management development in an organisational context. Whilst a qualitative research methodology implies that the study will involve the analysis of written or spoken text, it makes sense to 'count the countable' (Cassell and Symon 1994, p. 4). Consequently, attempts were made, throughout the second phase of this study, to collect a range of quantifiable data relating to the number of people employed by the firm, the educational background of the entrepreneur and firm profitability. In addition to this information, a number of orientation interviews were conducted over the telephone in conjunction with the analysis of company documentation to build up a profile of the company being analysed and to provide a wide array of background information for the study.

6.4.1.1 Phase One – Group Interviews

The most significant component of the first stage of the study was the organisation of three group interviews. Group interviews are a valuable tool of investigation that enable the researcher to focus upon group norms and dynamics around issues that are being examined (May 1993). Literature on this research method is scarce (Steyaert and Bouwen 1994). Within the group method context, even this commonly utilised tool is seldom referenced or discussed (Yin 1994; Strauss and Corbin 1990). In many respects the extent to which the researcher controls the group determines the nature of the data produced. In this study, the groups have been created to explore how owner-managers make decisions regarding managerial development and the major management challenges their organisations face as they strive for continued growth. Within this created group context the group interview or focus group have proved popular (Steyaert and Bouwen 1994). These group discussions are often associated with the organisational development schools (Argyris and Schon 1978). Moreover, these methods are commonly used to assist in the understanding of social or organisational phenomena. The group interview generally:

> *'discuss[es] a particular topic under the direction of a moderator who promotes interaction and assures that the discussion remains on the topic of interest' (Stewart and Shamdasani 1990, p.10).*

The group interview as a qualitative research tool allows the respondents to interact with other members of the chosen sample. In practice, group interviews tend to vary in size from six to ten people (Morgan 1991). Interaction between respondents encourages new ideas and thoughts to be generated, a process that cannot be attained from the traditional one-to-one interview (Steyaert and Bouwen 1994). It is also reported that participants are challenged to keep thoughts more realistic due to the pressures exerted by the moderator and other members of the group (Krueger 1988). Notwithstanding these advantages, it is important to acknowledge that this form of data collection also has some disadvantages. Its main disadvantage is its validity. The actions of the moderator or the presence of a dominant participant can adversely influence the group interview. In these circumstances, the validity of the approach is often dependent upon the ability of the researcher to ensure that these situations do not occur (Krueger 1988). Nevertheless, it is maintained that the group interview is a suitable yet under utilised tool for exploratory enquiry (May 1993; Steyaert and Bouwen 1994).

6.4.1.2 Phase Two – Semi Structured Interviews

During the second stage of the research, a series of interviews were conducted with the owner-managers of growth oriented firms. It has already been mentioned in section 6.4.1 that the qualitative research interview can be used to tackle a wide range of organisational issues and hence is one of the most flexible methods available to a researcher (Oppenheim 1966; May 1993; King 1994). In general, it is contended that there are three types of interview available to a study namely; a structured, unstructured or semi-structured interview (King 1994). The structured interview is used in cases when hypotheses require testing and can be compared with the survey or questionnaire approach. The unstructured interview is used as a tool to discover emerging themes and to discover how a phenomenon occurs within a particular context (King 1994). Finally the semi-structured interview is a combination of the first two approaches in which questions usually relate to a number of broad themes (Bryman 1992; King 1994).

The emerging themes generated from the first phase of the study combined with themes generated within the conceptual framework developed in Chapter five suggest a different approach is required from the unstructured approach adopted by the group interviews. Thus, it was decided that the series of interviews with owner-managers of growth firms would benefit from a more structured and focused approach, enabling the researcher to maximise the amount of data collected regarding certain issues (May 1993; Jones-Evans 1994). As a result, a semi-structured interview method was adopted. This approach enabled the researcher to use a list of scheduled questions that addressed the research questions developed in Chapter 5 and took into account any emergent themes from the initial group interviews. This approach also provides the study with a degree of flexibility, allowing the interviewer to elaborate and clarify any answers provided (King 1994). In addition to this, each question consisted of an introductory, follow-up and probing element to ensure that each answer could be fully examined (Fielding 1993; May 1993; Aaker et al 1998).

6.4.2 Issues of Research Validity, Reliability and Triangulation

One of the main issues of the research is to ensure that the themes identified are reliable and valid. It is argued however, that the methods developed to test the reliability and validity of data collected in quantitative research cannot easily be applied to a qualitative research design (King 1994). The qualitative approach subscribes to a totally different epistemology and does not see objectivity as an overriding research aim (May 1993; Cassell and Symon 1994). In contrast, good qualitative research requires researchers to utilise various aspects of their relationship with the interviewee so that the world and perspectives of the respondent can be better understood (King 1994). Nonetheless, it is important that researcher prejudices and prior expectations do not influence research outcomes (Kvale 1983). Given that interviewers are human beings and not machines, the achievement of validity and reliability can be difficult to accomplish (Fielding 1993).

This research follows the advice of Fielding (1993) and King (1994) for achieving reliability and validity with a qualitative research methodology within an organisational context. These commentators argue that during the interview process, a conscious effort must be made not to give excessive guidance to the interviewee(s). This action is aimed at ensuring that the respondent had sufficient time and freedom to provide their own full definition of the situation and enabled the researcher to fully develop the value-laden implications of the response. King (1994) also argues that it is possible to perform an inter-rater reliability statistical test when dealing with coding schemes that use exclusive categories for a particular phenomenon. This research however, does not, due to its exploratory nature, make use of exclusive categories and thus this method was rejected. Instead, an attempt was made to achieve a degree of validity in terms of the interpretation of the data. In this sense the researcher utilised a practice advocated by King (1994) by seeking confirmation that the interpretations made, in light of the data collected, were valid by discussing the main findings with other entrepreneurs not part of the study and with academics in the field of entrepreneurship. In addition, transcripts of the interviews were also sent to the participants to confirm whether the transcription was a fair reflection of the themes discussed and how the interview was conducted.

The size of the sample and the use of several different methods of data collection imply that the researcher has also tried to improve its validity and reliability through triangulation. Denzin (1971) proposed that there are essentially four kinds of triangulation available to researchers. Firstly, there is data triangulation, which argues that data should be collected at varying times, from different people and in different locations (MacDonald 1989). This research has ensured that the data is triangulated in this manner by following a multi-site research design and collecting data over a period of nine months. The research has also utilised differing methods of data collection in order to meet the requirements of methodological triangulation. Denzin (1971) proposed that this triangulation technique had two sub-types, namely within-method, whereby data collected uses a range of differing questioning techniques; and between-methods in which more than one type of data collection technique is employed. This study uses two principal methods of data collection, the group interview and the semi-structured interview. The techniques of theory and investigator triangulation however, were more difficult to achieve. In terms of investigator triangulation, it is not feasible to involve other researchers due to the nature of the research undertaken. Thus, there is an inherent risk that a number of preconception held by the author may influence the outcomes of this study. In order to reduce the effect of these perceptions, the views of academics, policy makers and owner-managers have been sought on the development of this research to ensure that any researcher bias is minimised. Finally, entrepreneurship and small business management is an evolving management science and hence differing approaches have been applied to the phenomenon ever since it received renewed policy and academic attention in the early 1970s. Whilst this rationale offers a possible argument for theoretical triangulation, it is pertinent to note that this research only approaches the phenomenon of growth from an entrepreneurial and managerial perspective. It is therefore reasonable to conclude that the extent to which theoretical triangulation has been attained cannot be accurately calculated.

Notwithstanding the difficulties that qualitative research faces in achieving validity and reliability some researchers have argued that methods that attempt to apply statistical rigour to the phenomenon of small business management and entrepreneurship have often proved to be inappropriate (Jones-Evans 1994). Entrepreneurship is a heterogeneous occurrence and the fact that the discipline is still in its infancy when compared to other management sciences, suggests that it may not be prudent to over emphasise rigour at the expense of relevance (Bygrave 1988; Jones-Evans 1994). Thus, it is maintained that the definition of the research question, the lack of previous research into why and how management practices are adopted by growth firms, has led to the identification of an appropriate methodology.

6.4.3 Pilot Study

To ensure that the data collection techniques were adequate for the research purpose a pilot study was conducted, testing both the first stage and second stage research instruments. Pilot studies represent an important step in developing the research design. It is also argued that a research design ultimately benefits from a small-scale preliminary study (Singer and Willet 1991). The pilot study should essentially mirror the methods, approaches and questions used in the main studies but enable the researcher to modify the data collection techniques prior to commencement of the research (Jones-Evans 1994; Cassell and Symon 1994; Muir 1998).

Despite the benefits of the pilot study it is often difficult to gain access to small businesses and thus access was a considerable barrier to being able to conduct an industry-specific group interview. Given that a pilot study should not be drawn from the same sample used for the major study, this requirement presented a potential problem to the research in terms of identification and access. In order to overcome this problem, it was decided that two strategies would be adopted to secure two suitable samples for the preliminary investigation. In regard to the group interview, the database Trendscan was used to identify a number of companies that resided in the manufacturing industry, had experienced considerable growth and also met the selection criteria discussed in Section 6.5.1.2. These companies were then contacted by letter to ask whether they would be willing to take part in a discussion group, concerning how and why successful firms adopted particular management practices. In the meantime the researcher used his existing contacts to find a suitable venue for the discussion that was geographically convenient to all the firms contacted. Five days after the letters were sent follow up telephone calls were made to the companies to ask whether they would be willing to participate in the discussion group. If this was not acceptable, an attempt was made to secure the owner-manager or Chief Executive Officer (CEO) for the second part of the pilot study involving the semi-structured interviews. During this process, 27 firms were identified and contacted. In the end, 6 owner-mangers were willing to take part in the group interview stage and a further 4 owner-managers or CEOs agreed to a semi-structured one-to-one interview.

The pilot study assisted the development of the data collection instruments and confirmed whether the respondents understood the terminology used by academia and policy makers. In general, the owner-managers were able to verbalise replies to the majority of questions, although it was decided that the section relating to strategic decision-making was unnecessarily complex. The solution to this complexity was to simply re-arrange the question order and provide a short definition of any terms that were deemed ambiguous.

6.5 Collecting the Data

In order to collect the data required to address the primary research purpose of this study it is essential to define the units of analysis, discuss the methods employed to gather information and provide a justification for the number of cases analysed.

6.5.1 Defining the Units of Analysis

The study is concerned with how and why certain management practices are adopted by small to medium sized growth oriented firms. Consequently, it is necessary to define the terms growth and small to medium sized enterprise (SME) in a meaningful and accurate manner. Chapter two discusses the wide range of problems that policy makers and academics have faced in the development of a universally accepted definition of the SME. In the past objective measures of size, such as net worth, turnover and number of employees have been used. More recently, an attempt has been made by the European Commission (1996b) to offer a comprehensive definition of the SME in terms of number of employees, net worth and annual turnover. For the purposes of this study however, it is argued that the single employment criterion operationalised by the Department of Trade and Industry (1998a) will be sufficient to satisfy the research purpose. This definition simply states that a medium sized enterprise, irrespective of industrial sector or geographical location in the United Kingdom (UK), should have no more than 250 employees.

Whilst the definition of what constitutes an SME does not take account of geographical region it is pertinent to note that sectoral differences that occur throughout the UK may affect the growth rate of the SME (Curran et al 1991; Storey 1994). It is therefore argued that to reduce this potential variance the study should concentrate its analysis on a particular region of the UK. Given that the author was based at a Welsh University it seemed appropriate to give the study a Welsh context. The choice of Wales, is also one of opportunity. At the time of data collection, the author was employed as the project manager of a new initiative to identify fast growing firms in Wales and establish a network in which these firms could benefit from shared experiences and open up possible avenues to increased trading. Historically, Wales has been a nation that has scored considerable success in securing inward investment. Despite this accomplishment it is recognised that the key to national success and the ability to compete globally will be increasingly dependent upon the development and growth of indigenous Welsh firms (Welsh Office, Pathway to Prosperity 1998; National Assembly for Wales, Betterwales.com: A Strategic Plan 2000). There are, at present, very few major independent firms in Wales and it is submitted that future policies in Wales need to support the development of 'home grown' firms that both have the desire and ability to grow and compete on the international stage (Welsh Office, Pathway to Prosperity 1998).

The firms chosen for this study therefore, were members of the Wales Fast Growth Fifty Network established by the Welsh Enterprise Institute at the University of Glamorgan and The Western Mail. This initiative has attempted to take the principles of the Inc. 500 in the United States and the Sunday Times/Virgin Fast Track 100 in the UK and apply them within a regional setting. The Wales Fast Growth Fifty Network's primary objective is to highlight the entrepreneurial talent that exists within Welsh businesses. The project is partly funded by the European Regional Development Fund and is also sponsored by a number of organisations such as British Telecommunications plc, National Westminster Bank plc and KPMG. The level of interest in this initiative stands as testament to the interest and perceived importance of growth firms to economies. In addition to compiling list of the best performing companies in Wales, the network also aims to assist the continuous development of these firms through an extensive programme of meetings, events and seminars. Whilst the Wales Fast Growth Fifty displays considerable diversity in terms of sector, age and size, it highlights that growth oriented entrepreneurs exist within Wales who have the ability to realise marketable opportunities and establish world class businesses across a wide range of business sectors.

6.5.1.1 Measurement of Growth

There is currently no overall consensus on the appropriate sets of measures that can be used to examine performance (Murphy et al 1996). The definition of growth therefore, to all intents and purposes, is arbitrary although existing studies of the phenomenon of firm growth commonly utilise measures of turnover, profitability and employment (see Smallbone et al 1992, 1995; Storey 1994; European Commission 1996b; Delmar and Davidsson 1997). Despite increased research interests and attempts to better define fast growth (Levie 1997; Welbourne 1997), cognition is still limited. Growth is not one-dimensional and few studies acknowledge that growth can take many different configurations (Delmar and Davidsson 1997). For example, growth can be seen as a combination of sales growth and employment growth, be either a continuous or discontinuous process and occur organically or through acquisition (Delmar 1997). In fact, whilst growth in terms of employment is important to an economy, evidence suggests that there is no conclusive relationship between sales and employment growth (European Commission 1996a). Sales are also considered to be a better indicator of future success than short term profitability growth. In this sense, it is argued that many private company directors are able to legally manipulate profit figures for tax purposes whilst at the same time still accurately represent sales in annual returns. Moreover, similar initiatives to the Wales Fast Growth Fifty, such as the Inc. 500 and the Sunday Times/Virgin Fast Track 100 also employ sales to measure firm growth. Consequently, it was decided that for the purposes of this study, percentage increase in turnover would be an adequate measure to identify fast growing firms in Wales.

6.5.1.2 Selection Criteria

For firms to become part of the Wales Fast Growth Fifty Network there were a number of criteria that had to be met. Ranking was based upon absolute percentage increase in sales. This measurement was taken for three financial years between 1996 and 1998. Sales had to exceed £100,000 in 1996 and firms had to be based in Wales and registered as independent quoted companies or ultimate holding companies in 1998. In addition, participating firms had to display consistent growth and thus inclusion was also based upon a firm's being able to exhibit a year on year percentage increase in sales turnover during the financial period 1996-98. The minimum turnover threshold represents an attempt to identify firms rather than self-employed individuals. This rationale is similar to an approach adopted by Smallbone et al (1995) in a study of high growth manufacturing firms in which a threshold of £500,000 was imposed on firms over a ten-year period. The criterion of independence ensured that the Wales Fast Growth Fifty were owner-managed rather than investor led. This criterion also assisted the interview process. Companies that had gone public after filing accounts in 1998 were also included. For accounting years that lasted more or less than 52 weeks, sales were annualised. Companies were excluded if they were unable to meet the selection criteria. Firms that had grown by acquisition or consolidation of activities were included if the trading group was able to provide evidence of turnover for 1998 and for previous years, turnover relating only to core activities was permitted. Complete information was also used as a prerequisite for inclusion and companies that were unable or unwilling to provide documentary evidence of sales were excluded. Moreover, firms were also excluded if there was incomplete database financial information after 1996, the calculated annual percentage growth rate was below 10%[2] or they were not subject to UK tax.

[2] Note: The figure of 10% p.a. takes into account the definition of fast growth offered by Smallbone et al (1995) in which fast growth is defined as doubling turnover in a 10 year period. Therefore whilst the Wales Fast Growth Fifty is assessed on a shorter period, an attempt has been made to ensure that compound annual growth rates are comparable with previous studies.

6.5.1.3 Identifying Fast Growing Firms

Firms for the Wales Fast Fifty Network were identified in three ways. Advertisements placed in the Western Mail and other forms of marketing were employed to encourage companies to nominate themselves, whilst 50 support organisations throughout Wales were also invited to make similar nominations. Finally, databases from Onesource, Trendscan and Dun and Bradstreet were utilised to identify further possible candidates. These companies were contacted and invited to make an application to the network. Database information however, was not deemed sufficient for inclusion into the Wales Fast Growth Fifty Network. All firms were required to provide documented evidence of turnover by either submitting accounts or providing a letter of confirmation from an accountant to confirm the accuracy and validity of sales figures for the three year financial period, 1996-98. Firms that appeared in database searches and displayed annual compound average growth rates of 20% (see Kinsella et al 1994) or more were also interviewed by telephone as to their eligibility and then invited to make an application to the Wales Fast Growth Fifty Network.

Due to the voluntary nature of the initiative it is conceivable that not all the fastest growing firms were identified. In this sense, it is contended that firms that were unwilling to provide documentary evidence, participate in the network or were not registered on the respective databases, do not appear in the list, despite eligibility. Concise company profiles[3] were also produced by asking all firms belonging to the Wales Fast Growth Fifty network to purvey details of general documents, business plans, marketing material and media publicity that related to their historical development, activities or recent successes. These profiles acted as useful insights into the nature, development and growth of the firms and provided research context. Regular media searches were also introduced to keep any information of the Wales Fast Growth Fifty up to date. Overall, of the 47,000 Welsh firms identified on the databases, 531 firms met the selection criteria detailed in Section 6.5.1.2 and letters were sent asking firms to put themselves forward for the initiative[4]. From this data set, 25 firms were also contacted by telephone due to the exceptional performance they had shown between 1996-98

[3] Note: See appendix 1.

[4] Note: The database search revealed great diversity in terms of growth rates. The range of growth rates acceptable for mailshot was 32% to 1000%. In four cases higher growth rates were calculated but further investigation revealed that the data held were incorrect and thus these firms were excluded. In terms of the Wales Fast Growth Fifty, growth rates also varied enormously, ranging from 32% to 924%.

accordingly to figures provided by the databases. Of these 8 owner-managers were prepared to put their companies forward for the network. In addition, a further 31 applications were generated through the mailshot exercise. This was supported by a further 34 nominations from Welsh business support organisations and 63 self reported nominations. In total, 136 firms applied to become part of the Wales Fast Growth Fifty. Of, these 136 firms, the top performing fifty firms, in terms of absolute percentage increase in turnover, were chosen to become members of the first Wales Fast Growth Fifty Network[5].

6.5.2 Identifying the Number of Cases

As the title 'Wales Fast Growth Fifty' suggests, at the time of the study the total population was 50 businesses. As a result in both stages of the research, the sample was drawn from this population. In addition to the criteria utilised by the Wales Fast Growth Fifty it was necessary to ensure that the sample also reflected the study's principal aim to examine how and why certain management practices are adopted by growth SMEs. Using the Department of Trade and Industry's (1998a) definition of what constitutes a SME the sample was reduced to 48 firms as two members of the Wales Fast Growth Fifty employed more than 250 people[6]. As an additional means of sampling, two criteria were also applied in conjunction with the criteria already discussed in Section 6.5.1.2. Due to the wide range of definitions employed in the literature to define growth, it was decided that firms would also have to show a percentage increase in terms of profitability and employment between 1996 and 1998. This addition to the selection criteria had little effect on the sample reducing it from 48 to 45 firms. The understanding that the entrepreneur or owner-management team is instrumental in determining firm strategy and development placed an additional constraint on the research. Whilst the researcher's position as project manager of the Wales Fast Growth Fifty Initiative allowed a degree of trust to be built up, in some circumstances owner-managers of particular firms were unable or unwilling to participate in either one of the research instruments employed by this study. The number of potential cases therefore, was reduced in both instances. In both cases, companies were approached either during a network event by the researcher or by telephone. For the group interviews, once an initial agreement had been secured

[5] Note: A list of the Wales Fast Growth Fifty, along with absolute and compound annual growth rates can be found in appendix 2.

and a number of possible dates discussed, the researcher, after repeating the process with other owner-managers of firms in a similar industry, wrote to the firms to confirm a date. In all cases, the group interviews were conducted on the premise of a Wales Fast Growth Fifty volunteer. In arranging the semi-structured interviews a similar approach was adopted, with a letter being sent to confirm the interview date. In all cases, the researcher also contacted the owner-manager the day before the interview to confirm availability. In regard to the number of owner-managers willing to participate in the group interviews and semi structured interviews, the potential number of participants was reduced to 39 owner-managers. Thus it is apparent that only a percentage of owner-managers were prepared or able to participate in the semi-structured interviews and the group interviews. This is perhaps unsurprising, as owner-managers can be construed as being time constrained individuals (Muir 1998). Consequently, whilst every effort was made to organise the group interviews at mutually convenient times, the process of ensuring a reasonable number of owner-managers attended a particular group interview proved difficult. Thus, whilst 39 owner-managers had agreed to take part in both the group and semi-structured interview phase, only 18 owner-managers eventually participated in the group interview stage. Finally, it was decided that despite the relatively long periods planned between the initial and principal stage of the research, an attempt would need to be made to recruit different interviewees for the second stage of this study[7]. As a result, all 39 potential interviewees were approached again for the second phase with this strategy in mind. A conscious effort was made to identify different owner-managers, but in some cases owner-managers that had participated in the group interviews were also included in the semi-structured interview stage. Nevertheless, in those cases where firms were owned by more than one individual, an attempt was made to interview a different owner-manager. This strategy however, only resulted in three different owner-managers being interviewed at the semi-structured interview stage. Consequently, owner-managers from 21 firms that had not participated in stage one of the study were interviewed and a further three owner-managers participated in the study for the first time in stage two although their business partner had already been involved in the group interview phase. Therefore, only 7 of the 31 owner-managers that

[6] Note: Discussed in Section 6.5.1.

[7] Note: The initial stage of the research was conducted between June and September 1999. The second stage, semi-structured interviews were conducted between January and February 2000. The group interviews were conducted on the premises of a volunteer firm and the semi-structured interviews were carried out at the business premises of the owner-manager.

participated in the second phase of the study took part in the initial group interviews. Moreover, the size of the sample implies that the research has improved validity and reliability through the triangulation methods outlined in section 6.4.2.

6.5.3 Research Method - Group Interviews

During the initial phase of this study the group interview format was principally unstructured and was directed towards obtaining information on the perceptions of owner-managers to management development within their firms, what barriers existed in relation to the adoption of certain management practices and justifications as to why certain practices were either being implemented or ignored. Following group orientated methodologies developed by Bouwen (1993) and Steyaert and Bouwen (1994) the interviews were conducted with the researcher acting as a chairperson for the discussion, ensuring that all participants were able to exert an influence upon how the discussion developed and that the interviews closely followed their research purpose. Each of the three groups consisted of six owner-managers from the Wales Fast Growth Fifty Networks. The groups were organised into three broad industrial sector classifications – manufacturing, industrial services/construction and services – and thus, each group was also able to discuss management development within the context of its particular industry.

At the beginning of the group interviews the purpose of the interview was stated[8] and each participant was assured that steps would be taken to protect their identity outside the confines of the interview. They were informed that any research resulting from the meeting and published in the public domain would use company-oriented pseudonyms. In addition, to assist confidentiality, an announcement was made at the beginning of each group interview stating that other participants should treat the content of any discussion as confidential. In each case the interview was tape recorded and additional field-notes made regarding important issues raised. All three group interviews were transcribed. Each interview lasted approximately one hour.

[8] Note: This statement included the phrase 'management challenges faced by growth oriented firms' and reflected the aims of the initial phase of this study.

6.5.4 Research Method – Semi-structured Interviews

In the semi-structured interviews, information was collected by various means including a small questionnaire regarding the main characteristics of the firm and the owner-manager and the collection of company documentation such as business plans, press releases and organisational charts. In line with the principles discussed in this Chapter, the research instrument took the form of a series of questions designed to reveal information on how and why growth firms adopted certain management practices. These questions were broken down into four main themes that essentially addressed the research questions posed by this study. In addition, questions were also added and revised to explore the emergent themes from the initial stage of the research and to collect background information regarding the general characteristics of the firm. The relationships between the questions asked and the research questions developed in Chapter five are illustrated in Table 6.1.

All questions asked in the semi-structured interviews were open-ended so that the full extent of a participant's experience could be explored. Moreover, despite the need to standardise the interview to assist comparison, as with a previous study conducted by Jones-Evans (1994) concerning the occupational backgrounds of technical entrepreneurs, the research permitted considerable latitude in terms of probing respondents for relevant information. To this end, quantitative data were also collected on various dimensions of either the owner-manager or entrepreneurial team and the growing venture. Nevertheless, it is pertinent to note that the majority of the study's analysis relies on the qualitative data collected through the two phase research approach.

The first section of the interview was designed to collect information about the firm itself, what markets it competed in and its primary objectives. The second part of the semi-structured interview turned its attention to the characteristics of the owner-manager or entrepreneurial team and examined the personal motivations behind creating and growing a business. This section also covered aspects such as the entrepreneur's background, experience and expertise. The third portion of the interview dealt with organisational change and development. This part of the interview asked the owner-manager how the organisation had changed in terms of its resources, management, its competitive position and its perceived capabilities. This section also asked whether or not the objectives of the firm or the entrepreneur had changed in light of the organisation's development.

Table 6.1: Relationship between Semi-structured Interview Questions and Research Questions

Research Question	Example of Questions asked to Explore Research Question	Location in Interview Guide
How do personality and background characteristics of the owner-manager or entrepreneurial team influence the adoption of management practices in growth firms?	What do you consider to be the important characteristics of yourself and your top management team? How has growth affected your firm in terms of attitudes to risk, innovation and strategic decision-making? What factors influence strategic decision-making?	Section 2, 3 and 4
Why do growth firms adopt certain management practices?	How has growth affected your firm in terms of changes to organisational structure, management and leadership? As you have grown what management practices have you introduced and why?	Section 3, 4 and 5
To what extent have the management practices adopted by growth firms secured a sustainable competitive advantage?	What do you consider to be the key success factors of your market or industry? To what extent are these attributes easy to secure? As you have grown what management practices have you introduced specifically to ensure that you maintain your competitive advantage?	Section 4 and 5
How do the management practices adopted by growing firms influence subsequent decision-making?	How has the strategic decision-making process changed as your firm has grown? How has the introduction of these management practices determined the strategic direction and development of the firm?	Section 4 and 5

* See Appendix 3 for a full interview guide

Part four of the interview was concerned with how strategic decision-making operated within the firm, what influences exert considerable pressure on this process, how the process had changed as the firm had grown and whether the owner-manager considered the firm to have a particular competitive advantage. Finally, section five of the interview addressed the issues pertaining to management development in terms of management practices adopted to support or facilitate growth. This part of the interview schedule also examined why these practices had been adopted and the extent to which certain management practices had given a firm a distinct advantage or capability. In each case, the interviewer explained the format of the interview and gave the owner-manager an indication of the interview length based initially on the pilot study. It is apparent that the research method utilised does not address the research questions in a linear fashion. Instead, there was an attempt to incorporate questions that could be used to check and balance the answers of owner-managers and assist in the analysis of the data collected. This technique has been advocated in organisational research by Bryman (1992).

During the interview, each participant was assured by the researcher that all information would be treated as confidential and the firm's identity would be protected by using a pseudonym in the event of the results being published. All interviews were recorded using digital recording equipment and in all cases the interviewer ensured that owner-managers were comfortable with being recorded. Furthermore, to help put the interviewee at ease an attempt was also made to ensure that the camera was placed in an unobtrusive position. The interviews on average lasted two hours but overall varied in length from one and a half hours to four hours[9]. Each interview was later transcribed in full.

6.6 Data Analysis

The analysis of qualitative data involves a process of bringing order, structure and meaning to the plethora of information collected during the study (Marshall and Rossman 1989). A single set of rules for the analysis of interviews does not exist and the very notion that it is possible to adopt one method, is arguably at odds with the principles of flexibility and openness which are essentially at the centre of qualitative

[9] Note: The variation in interview length was due in part to the willingness of owner-managers to engage with the researcher. The shorter interviews reflected a desire to return to work whilst the longer interviews were interpreted by the researcher as an attempt by the owner-manager to offer as much information as possible in the time they had allowed for the process. In several cases, the interviews were broken up into two halves by owner-managers so that they could invite the researcher to lunch. Offers that were always kindly received and demonstrate the rapport that the researcher had been able to establish as the project manager of the Wales Fast Growth Fifty.

research (King 1994). Interview analysis, regardless of the research problem, is a long process, in which an eye for detail, theoretical acumen and perseverance are paramount (May 1993). In this sense it is argued that researchers often unrealistically expect to find obvious sociological, educational or psychological concepts emerging from the data (Cassell and Symon 1994).

This is simply not the case and therefore the extraction of meaningful themes and interpretations from qualitative data can be construed as a complex and time consuming process. To conduct a competent analysis of qualitative data, it is necessary to become familiar with the data (King 1994). In this sense, it is contended that a researcher must fully understand the content of the data contained within the interview transcripts through a process of re-reading and re-listening. This involves the researcher reading the transcripts in conjunction with the recorded interview in order to ascertain whether the data contained within the transcript is a fair reflection of the interview and to note tone of voice and nuances of speech that may also assist interpretation (King 1994). Within the context of this study, the recordings, transcripts and field notes of both the group interviews and semi-structured interviews were reviewed to ensure that the transcriptions reflected the content of what had been discussed in the interviews. In addition, in the case of the semi-structured interviews, the fact that the interviews had been recorded by a digital camcorder also assisted the validation process.

The first phase of the study was largely exploratory and conducted in order to provide supporting evidence and differing perspectives of the data collected in the second stage of the study. To this end, whilst interpretations were made at this stage of the research, no attempt was made to draw any concrete conclusions from these data unless backed-up by observations made during the second stage of the study. Furthermore, given there were only three group interviews, lasting on average one hour, it was decided that there was no need for the data to be reduced significantly. Thus, in the case of the group interviews, an editing technique, similar to the one advocated by Glaser and Strauss (1967)[10], was employed to search for emerging themes and categories relating to the adoption of management practices by growth firms in Wales.

[10] Whilst the study is not essentially grounded, the exploratory nature of the study required preliminary data to be collected which could be used to support and augment the conceptual framework developed from the existing entrepreneurship literature and assist the researcher in better comprehending the phenomenon under study.

In the primary study of 31 interviews, which consisted of over 300,000 words of transcripted data[11], the approach suggested by Miles and Huberman (1994) was adopted. This method of analysis is also advocated by Jones-Evans (1994) in his study of small technology based firms in the UK and Fischer et al (1997) in their study of the emergence of socially constructed time in rapid growth firms. This approach is suitable for the analysis of multiple site studies, organising the analysis of qualitative data into three stages namely data reduction, data display and data verification. In terms of data reduction, the process of selecting, focusing, simplifying, abstracting and transformation of raw data, this study used a simple template technique. Template techniques:

> *'...vary in the extent to which the code-book is built upon existing knowledge (a priori) or is developed from the initial analysis of the interview data (a posteriori)'*
> *(King 1994, p. 26)*

For the purposes of this research it was decided that an *a priori* codebook derived from the literature and the content of the research questions was appropriate although important themes that evolved from the initial phase of this study were also incorporated into the template. Miles and Huberman (1994) also advocate this process of establishing a template. All interviews were transcribed using a standard word processing package.

The vast amounts of data however, led the researcher to introduce a coding system whereby the data were organised into the four main categories which reflected the four research questions developed in Chapter five. Whilst the template technique in this respect is similar to classical content analysis, continuous re-coding of the data combined with the fact that the emerging themes were not developed statistically, meant that the technique remained qualitative. Thus, the data were sorted and placed into four sections that closely related to the research questions. This was achieved through a combination of coding and data reduction techniques such as cutting and pasting (Jones-Evans 1994). The data were initially displayed using a narrative text approach to enable an accurate and detailed description and ordering of the data relating to the phenomenon (Strauss and Corbin 1990). It was also decided to use a matrix technique adopted by Miles and Huberman (1994) so that data could be compared across the broad industrial sectors of services, manufacturing and industrial services/construction and firm size. The primary

[11] Note: An example of a transcribed semi-structured interview can be found in appendix 4.

classification of analysis was firm size. Whilst firm size is arguably only a function of firm growth (Penrose 1995), the size of a venture implies that certain transitions may have taken place to accommodate an increased mass. It was decided to use the DTIs common definition of SMEs with one notable alteration. Instead of classifying a micro business as having between one and ten employees, evidence provided by Burns and Harrison (1996) stating that small firms do not generally start to change their management structure until they reach twenty employees, led to the reclassification of this axis. In this sense, three categories were created – 0 to 19 employees, 20 to 50 employees and 50+ employees. This was complemented by a secondary classification that divided the firm under study further according to the broad industrial classifications of services, manufacturing and industrial services/construction. Although the division of the data into a three by three matrix created nine possible forms, no firms interviewed corresponded to both the less than 20 employees and manufacturing industrial classification. As a result, the data were subsequently condensed into eight compact forms. This organisation of the data allowed the study to not only make a concise summary of the salient issues arising from the data but also permitted a direct and contrast analysis between the different categories. In all stages of the investigation the data analysis was first conducted on a within-case basis and then progressed to a cross-case and cross-group analysis as advocated by Eisenhardt (1989).

6.7 Conclusion

This Chapter has detailed the process by which a suitable research design and methodology has been constructed to address the research questions outlined in Chapter five. It has been argued that due to the exploratory nature of this study, a qualitative research methodology provides the necessary framework for data collection and analysis. The data has been collected by implementing a two-stage research design in which group interviews and semi-structured interviews have been used to examine management development in a total of 39 firms. The Chapter has also described how the data will be analysed in order that meaningful interpretations can be extracted from the data concerning how and why certain management practices are adopted by growth firms in Wales.

Chapter 7

Preliminary Study Results & Discussion

Chapter 7: Preliminary Study – Results and Discussion

This Chapter discusses the results of the preliminary study. The initial stage of the research involved conducting three group interviews with a total of 18 owner-managers from the Wales Fast Growth Fifty Network. These interviews were organised into three broad industrial classifications - services, industrial services/construction and manufacturing. The interviews were largely unstructured and examined the main managerial challenges faced by growing firms in Wales. From the interviews five main themes emerged. These themes were management development, finance, people, marketing and planning and control, and all owner-managers involved in this stage of the study reported that these factors exerted a considerable influence upon firm development and growth.

7.1 Preliminary Study – Evidence from the Group Interviews

The group interviews consisted of the following participants:

Table 7.1 Group Interview Participants

Services	Manufacturing	Industrial Services/Construction
Hotel Partnership⁺	Laser Ltd*	Rig Ltd*
HR Consulting⁺	Plastics Ltd*	Consultancy1 Ltd
Independent Ltd⁺	Plasma Ltd	Landscaping Ltd
Media⁺	Tech Ltd	Electric Ltd
Phone Ltd⁺	Sweet Ltd	Coating Ltd
Recruitment Ltd⁺	Clothes Ltd	Contractor Ltd⁺

⁺ Denotes participants who were involved in both stages of the research
* Denotes firms involved in both stages of the research but with different participants

The average turnover and employment growth rates for the firms involved in the first phase of the research were 179.05% and 209% respectively. The sample of eighteen firms created a total of 312 jobs.

During the group interviews five main themes emerged and were largely industry non-specific. These were management, finance and financial management, people, marketing and planning. Notwithstanding this fact, it is perhaps pertinent to note that the reasons behind the adoption of management practices across sectors were reasonably uniform. It was evident that the ways in which these challenges were prioritised and overcome were varied and inextricably linked to a number of personal and firm specific factors that were not explored within the preliminary stage of this study.

7.1.1 Management

The primary concern of owner-managers was related to the ways in which management could be evolved within their organisation. All participants stated that the need to either develop or recruit managerial talent dominated growth decisions. Some suggested that they were often reluctant to devolve responsibility to others within the firm whilst others argued that the management skills required by a small growing venture were not very easy to secure in the market place. Without exception all owner-managers cited the fear of introducing bureaucratic hierarchies to their organisations prematurely, arguing that poor recruitment choices in terms of management often frustrated the growth process and added unnecessary length to the strategic decision-making process. Some owner-managers implied that external management skills shortages were often exacerbated by an unwillingness to release control and a lack of confidence in the capabilities of existing employees to rise to the challenges of managing operational tasks. In fact, the owner-manager from Consultancy1 Ltd argued that;

> *'Whilst I know that my staff are more than capable of doing what they are currently doing, I have little confidence in their ability to cope with anything outside this'*

From this concern, it was apparent that the owner-managers of these fast growing firms were aware of the problems they faced in introducing new layers of management to their organisation. All seemed to agree that decisions regarding the future direction of the firm were often determined by their confidence in others to contribute to the decision-making process. In many cases owner-managers maintained that these skills did not currently reside within the firm and it was very difficult to find, recruit and retain expertise from external sources due to constraints on their ability to offer adequate remuneration. It was therefore evident that whilst almost all owner-managers acknowledged the importance of introducing new layers of management and developing organisational hierarchies to support and facilitate growth, the majority of firm owners were unhappy about releasing control to individuals whom they considered unequal to the task. As a result, many found themselves in the position whereby they encountered significant conflicts between managing their businesses on a day to day business and looking at further opportunities to sustain firm growth and development. For example, the owner-manager from Rig Ltd commented that:

> *'our growth has seen our infrastructure expand...this is placing excessive demands on the top management team to manage the activities as well as the future of the organisation until competent managers can be found'*

To alleviate problems surrounding the lack of management expertise in their organisations, several owner-managers looked to outside sources as a means of strengthening the management function. One owner-manager had taken steps to include the firm's company accountant in the strategic decision-making process and others had introduced similar strategies, utilising friendships and previous business relationships to widen their management expertise. While the majority of these strategies were adopted in the short run, until suitable expertise could be acquired, a small number of owner-managers had decided to make continuous use of external advice and guidance by appointing non-executive directors to enhance strategic decision-making.

During the interviews it was observed that these influences on strategy and the introduction of management did not vary widely across industrial classification. Instead, as might be expected, differences occurred between firms of different sizes. Owner-managers of firms employing less than twenty people were more inclined to accept the responsibility for running the business at both an operational and strategic level until they could secure the necessary operational expertise. Moreover, these owner-managers were more likely to be seeking operational management expertise to reduce their workloads so that they could concentrate on the firm's vision and future direction. Conversely, many owner-managers of larger firms, employing more than 20 people, were more concerned with establishing management levels that could either feed directly or indirectly into strategic decision-making. It was apparent that many growth oriented owner-managers were not only concerned with the effective management of their company at any given point in time but also ways in which the acquisition and development of management expertise could be utilised to expand firm capabilities in order to sustain growth. In fact, one owner-manager, from Phone Ltd, submitted that one of his primary roles was to ensure that;

> *'As we [grow]...we continue to look for ways to cement our position and develop our uniqueness by formalising and developing management...but at the same time we can't grow complacent and I accept that management will increasingly have an important role to play in identifying and seizing new opportunities for us'*

While this was a commonly held view, some owner-managers argued that their businesses had reached a critical mass that they were comfortable with and they were not actively seeking to develop new layers of management. These entrepreneurs contended that whilst they agreed in principle with the need to continually look at new ways of generating profitable business and sustaining competitiveness, they didn't necessarily see any immediate benefit in increasing management scope. In these cases, the owner-managers purported that the main role of management was to professionalise existing processes such as financial control and effective resource allocation to enhance efficiency and profitability. This stance was keenly discussed and it was noticeable that there was a clear divide between firms that continued to have a growth oriented owner-management team and firms in which owner-managers had achieved some pre-determined level of success in terms of turnover, profitability or size. This discussion offers further evidence that the growth motives of owner-managers are linked to the development of management practices in small to medium firms and the fact that growth is often a discontinuous process. The resulting debate however, did highlight that in almost all cases there was considerable agreement that one of the primary motives behind the introduction of management was to improve existing practices and processes.

7.1.2 Finance and Financial Management

Closely related to the issues surrounding general management there was also a general consensus that finance and financial management were significant factors in terms of growth and strategic decision-making. Many owner-managers argued that access to finance and the development of financial practices and controls were considered to be an integral part of the decision-making process, particularly in regard to expansion of a firm's existing product or service range. The owner-manager from Laser Ltd submitted that;

> *'As with anything our aspirations to grow this business are dependent on our ability to resource the pursuit of any given opportunity...an ability that is primarily down to whether we can secure the necessary finance through internal or other means'*

This highlights that whilst the existence of other competencies and resources are important in assessing whether or not to pursue opportunities to augment organisational capabilities, the decisive factor which enters the decision-making process concerns the firm's ability to finance additional activities. Furthermore, one entrepreneur, who ran the highly successful Independent Ltd concluded that;

> *'Money management is the key competence required by an organisation...without this ability, growth is restricted'*

As a consequence, it was not surprising to find that in almost all cases owner-managers had made a concerted effort to either introduce in-house financial expertise or had taken great care in employing an external accountant who was capable of contributing to the success of the firm. As mentioned, the latter solution had been adopted by a number of smaller firms that could not afford to employ in-house expertise while larger firms were more likely to be in a position whereby they could realistically contemplate the acquisition of financial management expertise.

Despite recognising the need to introduce financial management and control, many owner-managers contended that financial competencies were not always conducive to maintaining objectives associated with continuous growth. In this sense, a few owner-managers agreed that rapid growth had become a victim of 'financial professionalisation'. Prior to the implementation of financial measures, these entrepreneurs made instinctive decisions and some even admitted to benefiting from ignorant decisions that had proved successful. Improved financial information and a sense of their business' monetary worth however, had subsequently forced them to re-evaluate and even curb growth aspirations. Notwithstanding this apparent constraint on achieving certain growth objectives, most entrepreneurs agreed that the implementation of financial management expertise and controls had exposed some aspirations as being simply unrealistic. Other owner-managers purported that they had imposed financial management techniques and controls from the business inception, to assist the management growth and to accurately determine when certain growth objectives had been achieved. Within this context, the owner-manager from Consultancy1 Ltd surmised that:

> *'The firm continues to grow at an acceptable rate and the financial controls I set up ensure that I know exactly where the business is in terms of meeting its growth objectives'*

It is therefore evident that owner-managers of growth firms are likely to implement financial management expertise and performance measures to support and manage the growth process. While owner-managers recognise that these steps can be detrimental to responsive decision-making, they are more than willing to accept this eventuality if financial management expertise and controls provide the organisation with the necessary information to make better strategic decisions. Moreover, owner-managers also contend that improved financial management was often at the core of a firm's ability to resource future growth.

7.1.3 People

As with the need to recruit and develop management, all participants without exception cited employees as a significant factor affecting sustained growth. Many owner-managers suggested that their staff were fundamental to success in that strategic decisions were often based on the perceived capabilities of employees. In fact, the owner-manager of Plastics Ltd commented that;

> *'Our future rests in the skills, flexibility and motivations of our staff...without them we would never be where we are today or where we want to be tomorrow'*

Despite this declaration, it is pertinent to note that this owner-manager went on to say that in the majority of cases his staff was limited in what they could achieve. This view was supported by a number of owner-managers from all three industrial sectors, who all stated that decisions which concerned the future of their businesses not only considered the capabilities of the existing management team but also the ability of their staff to adapt to new routines and activities. Or as the owner-manager from Hotel Partnership put it:

> *'Our staff are good at what we want them to be good at and they are usually recruited with particular activities in mind...our [existing] staff seldom have the ability to take the business forward'*

Noticeable differences were evident between industrial sectors and the skills required by their respective workforces. Manufacturing and subcontracting firms were more concerned with reliability whilst service and professional consultancy based firms placed greater emphasis on professional qualifications and vocational skills. As a result, recruitment was also a practice that was considered important by all the firms involved in the interview. In the smaller firms, the owner-manager or entrepreneurial team carried out recruitment. In contrast, within larger firms, other managers that had been introduced to the firm would usually conduct recruitment interviews. Nonetheless, even in these cases it was apparent that no specialist manager had been recruited to undertake the task but rather the recruitment was undertaken by the manager most closely related to the position being created. In addition, for the smaller firms, it was evident that recruitment was often geared to trying to expand the existing management expertise of the company. As observed before, many owner-managers felt that decisions were constrained by the existing capabilities of their staff and management. This feeling had led some firms to look to secure certain competencies from outside the firm, due mainly to the belief that training would not necessarily provide the required skills from within. As the owner-manager from Hotel Partnership stated:

> *'I have always looked to the outside when looking to take on further management. The staff I have are very good at doing their jobs to the current level expected but I can't really be sure that any one of them could take the next step up to management'*

There were exceptions to this general trend however, with the owner-manager from HR Consulting, arguing that due to the firm's core skill group, human resource management, they were better equipped than most when it came to recruiting new staff. The owner-manager also stated that his firm used recruitment strategically and never recruited individuals that couldn't augment the existing competence base of the firm:

> *'In matters of recruitment I have a simple philosophy...we don't recruit in our own image...I basically don't want to have a situation where everybody is coming from the same angle...variety in decision-making helps us make better decisions'*

Apart from the skills required, most of the firms involved in the group interviews were quick to acknowledge the difficulties they faced in recruiting the right people. One owner-manager, from Computer Ltd, reported that attracting potential employees was difficult as his firm, due to its size, was viewed as being less secure than a large corporation regardless of relative performance. Most of the smaller companies employing less than 50 people agreed with this statement and it was only the larger firms that did not seem to experience this problem. One owner-manager from Laser Ltd said that in the past, in order to attract suitable senior management expertise, he had to forgo total ownership of the firm to secure two of his top management team:

> *'I couldn't give them the remuneration they wanted...but I could give them something to work towards'*

Notwithstanding these differences, all firms agreed that skill shortages and a dearth of managerial talent were considerable barriers to sustained growth. Furthermore, the smaller companies, employing less than 50 people, agreed that whilst they had originally thought they could take staff on and train them, the pressures of managing growing business had often thwarted these intentions.

One management practice that had emerged in relation to improving human resources was the standard of Investors in People. Of the 18 firms involved in the group interviews, 4 had achieved the standard and a further 6 were currently looking to obtain the standard within the next 12 months. Surprisingly, this observation was not restricted to the larger, more established businesses. The issue of Investors in People was actually raised by the owner-manager of Landscaping Ltd. The owner-manager reported that his belief, that if you looked after your employees, your employees would look after you and your business, had paid dividends. In this sense, he argued that the Investors in People standard seemed to fit this philosophy and served some practical use in maintaining overall standards. Other firms that participated in the group interviews cited similar reasons, although the two human resource/recruitment companies involved in the group interviews suggested that the reason behind their pursing the Investors in People standard was more a case of image. The owner-managers of Recruitment Ltd and HR Consulting contended that due to the fact that their companies were involved in helping others achieve the standard, it seemed appropriate to already have the standard themselves.

7.1.4 Marketing

In the three group interviews, all firms reported that marketing was all about getting the right information. Smaller firms classified as industrial services/construction argued that they currently did not need to develop their marketing expertise and were more interested in building up relationships within their industry. This viewpoint was succinctly summarised by the owner-manager of Landscaping Ltd:

> *'Marketing expertise is the last thing my firm needs...we have no problems securing work from good sources'*

This approach to marketing by these firms reflects how business is generally won. All of these firms have to tender for work and it was apparent that within the industrial services/construction arena relationships with other firms were considered to be a significant success factor. Moreover, the owner-manager from Electric Ltd suggested that:

> *'In the construction industry it's all about contracts and winning tenders. Reputation will offer you a chance to tender for a project but at the end of the day I feel value for money is always the deciding factor'*

To this end, these industrial services/construction firms contended that the management of working relationships proved to be a far more valuable use of resources than implementing practices such as marketing plans and marketing research. In addition, it was commonly agreed amongst the group that competencies relating to securing tender were also of considerably more value than traditional marketing techniques utilised by other industries. This view was shared by all the firms in this category although the managing director from Contractor Ltd stated that:

'Marketing is difficult for firms involved in the construction industry...we tend to rely on repeat business to secure the future, after all it's a relatively safe option...but we have found that due to our aspirations to continually grow the business we are having to look to other techniques to expand our customer base'

This statement however, did not receive much support and it seemed as though this line of thought was outside the realms of conventional thinking within the construction industry.

This apathy to marketing was not shared by firms in the service sector. Whilst there was an agreement that building relationships with customers was important, other techniques were also useful in maintaining competitiveness. The smaller firms confirmed that their marketing was quite informal, but nevertheless important. Larger service firms reported that they had introduced basic marketing information systems and regularly undertook competitor and market analyses. This was illustrated by the owner-manager of Phone Ltd who stated:

'In the early years of our business, marketing was informal, yet at the centre of all our efforts to achieve our growth objective. [Both] myself and my partner emphasised the importance of customer care and building relationships with our suppliers as well as our buyers...we are now at a stage where the company needs to develop an image rather than rely on the relationships we had established personally. We now have marketing plans that look towards de-personalising the business transaction but without risking the core values of our service that have brought us to where we are today'

In terms of the manufacturing sector there was a great deal of variety as to what constituted marketing practices than sustained the growth process. The owner-manager from Plastics Ltd suggested that the innovative nature of the products manufactured and sold meant that marketing was a core activity of the firm. Within this context, he argued that over the years the company had not only become competent with regard to the selling of their products through the supply chain and on to the final consumer, but had learnt that different markets and cultures required different marketing strategies. This view was also supported by the owner-manger from Laser Ltd, who contended that when products and services were innovative in nature, marketing was more about education and 'stirring up' interest:

> *'We know that there is a market for our innovations but we can't expect the market to come to us...we have to go to the market and tell them that we have the product they have been searching for...we then have to prove it'*

During the manufacturing group interview it was observed that similarly to the service sector a range of marketing techniques are utilised by growth firms. Where manufacturing firms supplied goods to large retail multiples, there seemed to be some agreement that good relationships were also important. The group interviews involving growth firms from the both the service and manufacturing sectors also highlighted that as firms increased in size, more formal systems were being introduced to manage an increasing amount of information. In the case of the growth firms from industrial services/construction this move towards formalisation was not observed and depended more on the individual beliefs of the entrepreneur or owner-management team.

In all cases, the group interviews seemed to imply that marketing and the quality of people were inextricably linked to competitive success. In the smaller firms in both the service and industrial services/construction sectors, it was apparent that marketing was an informal process and more emphasis was placed on getting the right people to build and maintain strong relationships with customers. In the larger service and manufacturing firms, evidence suggested that they had routinised some of their marketing activities and set up systems to ensure that certain customer practices were adhered to. Moreover, larger firms had also implemented marketing intelligence and market appraisal as systems capable of generating quality information that could be utilised in strategic decision-making.

7.1.5 Planning and Control

In all group interviews participants reported that they had implemented some form of strategic planning. The degree of formalisation varied across firms in both size and industry. Most firms had originally written business plans, but many admitted that the use of a business plan for securing a source of finance is often overrated. Firms in the industrial services/construction sector emphasised the importance of meeting turnover objectives and securing good profit margins. Owner-managers in this classification who operated the smaller businesses also suggested that whilst there was a clear procedure through which decisions were made, the procedure often did not involve extensive plans or documentation. These owners-managers reported that strategic decisions were made infrequently and in one particular case, the owner-manager of Landscaping Ltd stated that:

'Sometimes we are just too busy making the business work to worry about what could be around the corner'

This viewpoint was also shared by a number of the smaller service sector firms. One owner-manager alluded to the fact that strategic planning was in many ways a fallacy and that his firm were just trying to keep up with the pace of change. In contrast, the owner-manager from Recruitment Ltd suggested that success had led to rapid diversification and that this had proved difficult to manage competently. As a result, he had made great efforts to introduce a strategic planning process in which information could be fully utilised to make more informed and better choices concerning the increasing strategic scope of the firm:

'success has led us to diversify too quickly in the past...we have had to adopt more formal and stringent practices to make sure we don't try and achieve things that are obviously outside our current strengths'

The extent of strategic planning in the manufacturing firms interviewed was very similar to the observations made in the service firm group interview. One difference was that owner-managers of manufacturing firms emphasised the importance of routinisation as a mechanism by which strategies could be planned and implemented more effectively. This difference however, could not be exclusively attributed to growing manufacturing firms and it was evident that the larger service firms that operated multi-site businesses were also more inclined to adopt standardised procedures. In fact, the owner-manager from Phone Ltd suggested that:

'Standardisation of procedures such as planning and information gathering means that we are better placed to implement changes more rapidly...everybody in each one of our

branches performs in a particular way and therefore when we make a planned change...we don't have to implement it more than once'

Larger businesses in both services and manufacturing also reported that planning was often segmented to assist subsequent implementation. In this sense, they argued data concerning various performance indicators from differing sources in the organisation, was broken down to take account of specific functional changes. This however, was not discussed in the industrial services/construction group interview.

Interestingly, some of the larger firms stated that to assist planning and strategic formulation and implementation, they had looked towards utilising the experience and skills of non-executive directors. For example, the owner-manager from Laser Ltd mentioned that the firm had recently appointed two non-executive directors as a way to improve the competence and knowledge-set of the firm's existing decision-making forum. In addition, Sandwich Ltd, suggested that the introduction of an advisory board to assist the decision-making of the two incumbent owner-managers had also greatly improved the quality and relevance of strategic business decisions.

Of particular relevance to manufacturing firms was the issue of quality control. The majority of these firms maintained that one objective behind introducing certain management practices was to continually improve the quality of their products and efficiency of production. There was general agreement that the need for quality and efficiency was driven by external factors such as a growing trend towards customers demanding value for money and quality standards demanded by large retail multiples. Several owner-managers of manufacturing firms cited stringent return policies operated by larger customers as strong influencing factors in their decisions to adopt quality management expertise, systems or practices. One firm in particular had experienced costs of up to £30 per returned item and had to quickly look at ways in which consistent quality could be achieved. The owner-manager argued its success at that particular point in time rested upon the recruitment of expertise and the adoption of a suitable management control system. The company opted for the ISO 9000 standard[1] and this, coupled with a competent manager, had enabled the firm to enhance productivity and

[1] Note: For the purpose of this study the ISO 9000 definition proposed by Stevenson and Barnes (2001) has been operationalised. See Chapter 4 (p. 91)

efficiency. The owner-manager went on to comment that despite the apparent unfairness of the return policy operated by large retail multiples, the desire to achieve sustained profitable growth, drove both himself and his business partner to re-evaluate and strengthen its existing competitive advantage by implementing a suitable management practice;

> *'While we felt that the return policy operated by Tesco was blatantly unfair, it prompted us to introduce and maintain quality standards through ISO9000...efforts that have [since] seen us change twenty four hour production from seven days to five days with noticeable differences in both quality and profitability'*

This view was also shared by the majority of owner-managers who operated industry related businesses who stated that quality of work and value for money was a major factor in securing repeat business and establishing a good reputation. It was argued that this was particularly indicative of the construction industry in which price was an overriding factor and therefore, practices which improved efficiency were vital to maintaining profitability, especially in times of recession.

While different in application, the introduction of quality assurance measures were also considered to be of great value to service based firms. Whereas the owner-managers of the manufacturing and construction firms looked at quality management techniques as a means to improve quality and production efficiency, owner-managers of service related companies were more concerned with the service quality. Entrepreneurs that had established, or acquired, service firms were acutely aware that their competitive advantage was ultimately dependent upon building relationships with customers. It was contended that these relationships were built through the continued delivery of quality service. In addition to developing or recruiting management expertise in service delivery, the principles of ISO 9000 and 14000 had been effectively implemented so that these objectives could consistently be met. In other words, it was evident from the interviews that the majority of owner-managers utilised management expertise and practices to reinforce core strategies and values that had afforded their companies initial success. Moreover, it was apparent that entrepreneurs of larger SMEs were also looking at introducing new layers of management, practices and controls so that certain tasks and activities could be absorbed into the organisation through routinisation and standardisation. The rationale behind these actions centred not only upon developing culture that could sustain differential advantages but also serve as a mechanism by which future strategies could be quickly implemented throughout the organisation.

7.2 Conclusion

In all cases, the owner-managers of all the firms confirmed that their aspirations still exerted a considerable influence upon the strategic direction and scope of their businesses. Nevertheless, there was evidence to suggest that firms that wished to sustain growth were more inclined to look at the introduction of management practices as a necessary evolutionary step. Whilst little can be said regarding the total array of influences which affect the adoption of management practices, it is apparent that firms that continue to be growth oriented are more inclined to look at the strategic benefits that certain practices provide.

In relation to the evolution of the business in terms of management and organisational structure, there is a plethora of factors that either encourage or constrain the adoption of management practices. The owner-managers that participated in the group interviews are generally in agreement as to only being willing to release a degree of management control to individuals who were perceived to be up to the task. Consequently, it can be argued that despite recognition of the need to introduce management structures to facilitate and support business growth, owner-managers of growth firms are particularly careful as to which individuals are employed to undertake the task. The rationale behind this cautious approach was that there was a significant cost involved in recruiting the wrong people. This is highlighted by the fact, that in many cases either the owner-manager or a trusted member of the senior management team undertook the recruitment function. When suitable candidates could not be found or there was a general reluctance to introduce new layers of management into the firm, some firms had resorted to using external assistance to improve their managerial base. In these circumstances, owner-managers had looked to using the skills and knowledge of their accountants, trusted friends and business associates in a non-executive director capacity to improve strategic decision-making. Other firms that had identified suitable management personnel often found themselves unable to secure their services due to an inability to remunerate these individuals sufficiently. In one case, this problem had been overcome by an owner-manager surrendering a small percentage of firm equity in order to entice two industrially renowned individuals to join his growing venture.

One factor that seemed to have a considerable bearing on strategic decision-making was the capabilities of a firm's existing human resources. Although training was not discussed in detail in any of the three group interviews it became apparent that most of the firms looked to recruit staff that met current requirements. In this sense, it is argued that no firms stated that training and development was an important management practice. Instead, the process of recruiting the right people to perform particular tasks was considered significant. Owner-managers from all sectors reported that generally, people were recruited to undertake a specific role in the company in order to meet the objectives of the firm rather than as a trainee. This viewpoint however, had created problems for most of the firms interviewed. Many firms alluded to how the capabilities of staff were of paramount importance when making decisions concerning the future strategy of the business. In these cases, the recruitment strategies adopted by the majority of firms had proved to be short-sighted, as the skills possessed by staff were often inadequate to assist the further development of the firm. Nevertheless, there were a few instances where firms had adopted a long-term approach to recruitment. In one particular case, the owner-manager of HR Consulting had reported that human resources were crucial to firm success. As a result of this, recruitment was approached from a strategic perspective and staff that were added to the existing complement of employees usually possessed different skills. This however, is somewhat unsurprising given the fact that this firm specialises in strategic human resource development.

A few firms have obtained the Investors in People standard. Whilst some firms simply see this as an important badge that portrays the right image to customers and suppliers, several firms have implemented the standard as a means of ensuring that staff undertake a programme of continuous development. In these instances, the firms have argued that the standard has some practical use in not only making sure that controls are in place to improve the skill base of employees but also to give staff something in return for their continued commitment to the firm. In other words, these firms argue that by investing in employees, they encourage their staff to commit themselves to ensuring that the company remains successful.

Management practices such as marketing, financial and quality control seem to be adopted by growth firms for a variety of reasons. In terms of quality, the management standards of ISO 9000 and 14000 have been implemented by a number of firms in the study. The majority of these firms have seen these management tools as a means of reducing cost and minimising variations in product and service quality. Firms in all three industrial groupings had used these standards. Service related and industrial services/construction firms have generally looked to these standards to either enhance their image or help standardise practices that ensure strong relationships with clients and customers are maintained. In both cases, owner-managers have been quick to acknowledge that in any industry the ability to continually meet the needs of customers is an important competitive advantage. In addition, this rationale has proved important to firms in the manufacturing industry although these practices have also been implemented to improve production efficiency.

The adoption of marketing and finance management practices seems to be related in part to a firm's particular industry. All but one firm in the industrial services/construction stated that marketing was of little relevance outside the ability to build relationships with customers. Instead, these owner-managers argued that financial management practices were more significant as work was more often than not secured on a lowest price basis and thus, continued success was therefore dependent upon prudent financial control in order to achieve a profit. In contrast, service and manufacturing firms reported that both financial management and marketing practices were considered important to maintaining a strong position in their chosen environments. Good financial management was considered to be a necessary requirement for growth and information about the competitive market place was viewed as being a key determinant of future strategies. In this sense, it was contended that without good financial management a firm would usually be unable to pursue and manage growth. In terms of marketing, the majority of owner-managers suggested that increasing environmental complexity and competition, combined with growing sources of market data, led them to introduce systems that would not only collate this information, but also feed the relevant information into the decision-making process. Thus, owner-managers in both the service and manufacturing industries seemed to generally agree that financial management and marketing practices were significant in terms of providing the decision-making process with data regarding the firm's external and internal environment. Conversely, firms in the industrial services/construction group interviews, despite alluding to the importance of building relationships with customers and clients, failed to see the benefit of existing marketing practices to augment existing competitive advantages.

The group interviews highlighted that strategic management complexity varied enormously between industrial sectors and firm size. Whilst it would be reasonable to conclude that the degree of planning complexity increased with firm size, owner-managers of smaller firms also alluded to implementing a range of formalised strategic planning techniques. Of particular note, is the practice of standardisation and routinisation. Some firms stated that attempts had been made to routinise or standardise certain practices and processes so that the implementation of future strategies could be achieved more easily. This rationale indicates that owner-mangers may have been frustrated in earlier attempts to introduce different strategies to meet their objectives. In response to these frustrations it could be argued that they have taken time to organise the firm and its activities to ensure that problems of implementation are minimised in order that the firm can react more quickly to change.

Chapter 8

Semi-Structured Interviews Results & Discussion

Chapter 8: Semi-Structured Interviews – Results and Discussion

This Chapter builds upon the observations made in the preliminary study. It is divided primarily into two parts. The first part illustrates the heterogeneity of the firms involved in the second stage of the study in terms of size, industrial classification, marketing activity and age. This section also includes rudimentary data on certain background factors of owner-managers such as age, education and experience. The second section displays and discusses the results of the semi-structured interviews that were conducted with owner-managers of growth firms in Wales. The qualitative data has been organised to address the research questions developed in Chapter five of the thesis. In general, the results show that owner-managers of growth firms in Wales adopt management practices for a variety of operational and strategic reasons ranging from the need to efficiently co-ordinate the growth process to improving the quality of information and decision-making. This Chapter also highlights the importance of the entrepreneurial filter to the decision-making process and indicates how management practices adopted by growth firms influence decision-making.

8.1 Introduction to the Data

The second stage of the research initially sought to collect descriptive data on the 31 firms that had agreed to a semi-structured interview. This data included information on the age, size, ownership, industrial classification, market behaviour and performance of the firms involved in the study. Firm data were organised in terms of firm size. This information provides a general overview of the firms and the owner-managers involved in this study.

8.1.1 Firm Data

A total of 31 firms participated in the second stage of this study. Table 8.1 shows the breakdown of these firms in terms of size and industrial classification. Employee numbers varied considerably between firms ranging from a minimum of 10 to a maximum of 250 people. The sample included 16 (51.61%) service oriented firms, 7 (22.58%) firms from industrial services or construction and 8 (25.81%) manufacturing companies.

Table 8.1: Industrial Classification

Activity/Firm Size	0 - 19	%	20 - 50	%	50 +	%	Total	Total %
Services/Retail	5	71.43%	7	46.67%	4	44.44%	16	51.61%
Industry	2	28.57%	3	20.00%	2	22.22%	7	22.58%
Manufacture	0	0.00%	5	33.33%	3	33.33%	8	25.81%
Total	7	100.00%	15	100.00%	9	100.00%	31	100.00%

It was therefore evident that the range of activities undertaken by these firms was considerable. Nonetheless, it is pertinent to note the lack of technology based firms involved in the study. In fact, of the 31 firms interviewed only 12.9% could be classified as having an innovative or technological bias. Table 8.1 also illustrates that service firms dominated each size classification. Service firms also comprised 71.43% of the smallest size classification. Conversely, no manufacturing firms were recorded in this classification. This observation can be attributed to the fact that manufacturing firm generally require more human capital.

Table 8.2 confirms that only 16.13% of all firms in this study were less than five years old. This is perhaps unsurprising given that the criteria for selection essentially precludes any firm that was less than four years old and had not reached a turnover of £100,000 by the end of the 1995-96 financial year. Moreover, it was evident that of the firms that are less than 5 years old, 42.86% employ less than 20 people. Nevertheless there are exceptions to this general trend.

Table 8.2: Firm Age

Firm Age	0 - 19	%	20 – 50	%	50 +	%	Total	Total %
0 to 5	3	42.86%	1	6.67%	1	11.11%	5	16.13%
6 to 10	2	28.57%	5	33.33%	3	33.33%	10	32.26%
11 to 15	1	14.29%	5	33.33%	3	33.33%	9	29.03%
20	-	0.00%	2	13.33%	1	11.11%	3	9.68%
20+	1	14.29%	2	13.33%	1	11.11%	4	12.90%
Total	7	100.00%	15	100.00%	9	100.00%	31	100.00%

One firm employing less than 20 people was more than 20 years old whereas one firm that is less than 5 years old currently employed more than 50 people. In fact, this company currently employs 250 people and was the largest employer involved in the study.

Of the 31 firms, 77.42% of businesses could be defined as being private limited companies. Surprisingly, as Table 8.3 indicates, in both the 20 to 50 and the more than 50-size classification, one company was classified as a sole trader.

Table 8.3: Firm Type

Type	0 - 19	%	20 – 50	%	50 +	%	Total	Total %
Sole Trader	2	28.57%	1	6.67%	1	11.11%	4	12.90%
Partnership	1	14.29%	2	13.33%	0	0.00%	3	9.68%
Ltd Company	4	57.14%	12	80.00%	8	88.89%	24	77.42%
Total	7	100.00%	15	100.00%	9	100.00%	31.00	100.00%

In the study, a total of 64 owner-managers were identified. This equated to an average of 2.06 owner-managers per firm. Table 8.4 provides a breakdown on owner-managers by firm size.

Table 8.4: Number of Owner-Managers

No. of Owners	0 - 19	%	20 – 50	%	50 +	%	Total	Total %
1	1	14.29%	4	26.67%	5	55.56%	10	32.26%
2	2	28.57%	7	46.67%	3	33.33%	12	38.71%
3	3	42.86%	3	20.00%	1	11.11%	7	22.58%
4	1	14.29%	1	6.67%	0	0.00%	2	6.45%
> 5	0	0.00%	0	0.00%	0	0.00%	-	0.00%
Total	7	100.00%	15	100.00%	9	100.00%	31	100.00%

The table shows that 67.74% of firms have more than one owner-manager and 29.03% have an owner-management team consisting of at least three people. Interestingly the table also highlights that 55.56% of firms employing more than 50 people only have one owner-manager whereas 77.27% of firms employing less than 50 people have at least two owner-managers.

Table 8.5 indicates that 83.87% of firms were still owned by their original founders. All firms employing less than 20 people were still managed by their founder(s) but 16.13% of firms employing more than 20 people had subsequently be acquired by an entrepreneur or new owner-management team.

Table 8.5: Ownership Type

Type	0 - 19	%	20 - 50	%	50 +	%	Total	Total %
Founder	7	100.00%	13	86.67%	6	66.67%	26	83.87%
Non Founding Owner	0	0.00%	2	13.33%	3	33.33%	5	16.13%
Total	7	100.00%	15	100.00%	9	100.00%	31	100.00%

The combined turnover of firms that participated in the second stage of this study in 1998 was in excess of £114 million. Of this aggregate turnover 56.25% was generated by firms employing more than 50 people (see Table 8.6). All size categories experienced significant increases in absolute turnover. The percentage growth in total aggregate turnover between 1996 and 1998 was 100.52%. This can be further subdivided into the various size classifications. Small firms employing less than 20 people increased their aggregate turnover by 102.28% whilst firms employing between 20 and 50 people experienced a rise of 87.88%. Firms employing more than 50 people increased aggregate turnover by 107.82% in the same period. Moreover, Table 8.6 highlights that the larger firms contributed a disproportionate amount to overall aggregate turnover and this is reflected in the respective mean increases between firm sizes. This is perhaps unsurprising given that firm size is usually proportional to turnover. There were also some notable differences between the three industrial classifications. Service oriented firms showed a mean increase of approximately £1.38 million whereas manufacturing firms experienced a mean turnover increase of just over £2 million. Interestingly, the largest mean increase in turnover of £2.645 million was displayed by industrial services/construction oriented firms. Whilst the reasons behind these differences were not the focus of this study, one possible explanation could be derived from the relative size of contracts awarded in this industry compared to contracts given to firms in the service and manufacturing industries.

Table 8.6: Turnover Statistics

Category	0 - 19	20 - 50	50 +	Total
Aggregate Turnover 1996 (£000s)	7157.95	18849.45	30867.04	56874.45
Aggregate Turnover 1998 (£000s)	14479.15	35414.29	64148.83	114042.28
Absolute Increase in Turnover (£000s)	7321.20	16564.84	33281.79	57167.83
Mean Increase in Turnover (£000s)	1045.89	1104.32	3697.98	1191.00

Table 8.7 summarises the employment created by the firms involved in the semi-structured interviews. By 1996, the 31 firms had already created 776 jobs, by 1998 they had created employment for a further 657 people, an increase of 84.66%. This data, when broken down into the three size classifications, revealed that firms employing more than 50 people, accounted for 68.19% of all jobs created in the period 1996-98. In contrast, firms in the 0 to 19 employee classification only created 6.09% of all jobs. Small firms employing less than 20 people had a mean employment increase of only 5.71 whereas firm employing between 20 and 50 people and those with more than 50 employees enjoyed employment creation means of 11.27 and 49.78 respectively. Job creation across the three industrial classifications also varied considerably. Firms in the industrial services/construction category created 90 jobs in the period compared with 244 jobs created by service oriented firms. Manufacturing firms created 323 jobs in the 1996 – 1998 period, which equates to an average of over 40 new employees per firm.

Table 8.7: Employment Creation Statistics

Firm Size	0 - 19	20 - 50	50+	Total
Total jobs 1996	36.00	252.00	488.00	776.00
Total jobs 1998	76.00	421.00	936.00	1433.00
Net Job Creation.	40.00	169.00	448.00	657.00
Mean Job Creation	5.71	11.27	49.78	13.69

The average growth rate of firms involved in the second stage of the research was 149.47% (see Table 8.8). It was evident that larger firms enjoyed higher levels of growth than their smaller counterparts. The range of growth rates in the sample however, varied enormously. Similarly, the firms that employed more than 50 people also experienced the highest employment growth rate of 252.76%. The fact, that firms employing between 20 and 50 people only enjoyed an average employment growth rate of 106.33% in comparison to a rate of 192.86% for firms employing less than 20 people however, illustrates that the same relative growth patterns were not observed between turnover and employment growth. It is pertinent to note that this relatively lower figure may be due, in part, to the number of firms classified in the firm size of 20 to 50 employees which stands at 48.38% of all firms participating in the semi-structure interview stage of this study. Growth rates between firms of differing industrial classifications also varied. Firms in the service and industrial services classifications enjoyed turnover growth rates of 109.33% and 151.90% respectively. Service firms however, exhibited a higher employment growth rate of 142.02% compared to 101.19% displayed by firms in the industrial services/construction classification. In general, the manufacturing firms demonstrated the highest growth rates. In terms of turnover and employment growth these firms averaged growth rates of 229.57% and 279.89% respectively. There was also a notable difference between the growth rates of the four innovative firms and other firms involved in this study. This was best illustrated by comparing the average turnover growth rate of these four firms with the growth rates of the three family owned firms included in the sample. The innovative firms enjoyed an average turnover growth rate of 462.92% whereas the three 'family run' businesses had an average turnover growth rate of only 41.44%. Moreover, the growth rate exhibited by the four innovative or technological based firms was also considerably higher than the sample average growth rate of 149.47%.

Table 8.8 Turnover and Employment Growth

Firms		Turnover Growth %	Employment Growth %
Size	Number	Mean	Mean
0 – 19 employees	7	115.74%	192.86%
20 – 50 employees	15	136.04%	106.33%
50+ employees	9	199.82%	252.76%
All firms	31	149.97%	168.38%

Of the 31 firms, 74.19% provided services or products to other businesses. Table 8.9 also illustrates that no businesses involved in the second stage of the study supplied their goods or services solely to a consumer market, although 25.81% did state that they considered their market to consist of both other businesses and consumers.

Table 8.9: Market Orientation

Marketing Orientation	0 - 19	%	20 - 50	%	50 +	%	Total	Total %
Business – Business	6	85.71%	10	66.67%	7	77.78%	23	74.19%
Business – Consumer	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Combination	1	14.29%	5	33.33%	2	22.22%	8	25.81%
Total	7	100.00%	15	100.00%	9	100.00%	31	100.00%

Table 8.10 portrays the exporting behaviour of the 31 firms. Out of the 31 firms, only 11 stated that they were currently involved in some form of export activity and of these firms the majority of exporters (81.82%) employed more than 20 people.

Table 8.10: Exporting Behaviour

Exporter	0 - 19	%	20 - 50	%	50 +	%	Total	Total %
Yes	2	28.57%	4	26.67%	5	55.56%	11	35.48%
No	5	71.43%	11	73.33%	4	44.44%	20	64.52%
Total	7	100.00%	15	100.00%	9	100.00%	31	100.00%

Out of the 11 firms that export, Table 8.11 highlights that export behaviour is equally spread between Europe and the Rest of the World. More significantly, Table 8.11 shows that 25.81% of firms in the study concentrate on supplying their goods and services in Wales and a further 38.71% of firms limit their market to the United Kingdom. It is noteworthy that none of the firms employing less than 20 people limit their market to Wales. Evidence from the orientation interviews suggested that firms defining their market in terms of Wales felt that they could enjoy particular advantages by focusing on this region.

Table 8.11: Geographical Scope

Scope	0 - 19	%	20 - 50	%	50 +	%	Total	Total %
Wales	0	0.00%	6	40.00%	2	22.22%	8	25.81%
UK (exc. Ireland)	5	71.43%	5	33.33%	2	22.22%	12	38.71%
Europe	1	14.29%	2	13.33%	3	33.33%	6	19.35%
World-wide	1	14.29%	2	13.33%	2	22.22%	5	16.13%
Total	7	100.00%	15	100%	9	100.00%	31	100.00%

8.1.2 Owner-Manager Data

In addition to information amassed concerning the general characteristics of the 31 firms involved in the second stage of the study, data were also obtained on the sociological background of the owner-managers of these firms. The 64 owner-managers identified had information regarding their gender, age distribution, marital status, educational background and previous business experience collected.

Firm ownership in this study, was dominated by the male gender. This is expressed in Table 8.12. Of the 64 owner-managers, 90.63% were male. In addition, information provided by interviewees highlighted that in two instances, 2 female owners, were essentially non-participants in the business. In both these cases, the owner-managers argued that their wives had been added for personal and legal reasons.

Table 8.12: Gender

Male	Female	Total
58	6	64
90.63%	9.38%	100.00%

Table 8.13 illustrates that 78.1% of owner-managers that participated in the semi-structured interview stage of this study were married. A further 14.1% reported that they had previously been married but were currently divorced or separated.

Table 8.13: Marital Status

Married	Single	Other	Total
50	5	9	64
78.1%	7.8%	14.1%	100.00%

Table 8.14 highlights the age distribution of owner-managers of the Wales Fast Growth Fifty Network involved in this research. Only 10.94% of owner-managers reported that they were under 25 when they started their business. Most owner-managers (73.44%) however, started or acquired their current business between the age of 25 and 44. At the time of the interview the majority of owner-managers (62.51%) were aged between 35 and 54. No owner-managers resided in the 65+ age category either at the time of the interviews or at business start up.

Table 8.14: Age Distribution

Age Group	(Now) Frequency	(At Start Up) Frequency	% Now	% Start up
18-24	2	7	3.13%	10.94%
25-34	11	26	17.19%	40.63%
35-44	18	21	28.13%	32.81%
45-54	22	9	34.38%	14.06%
55-64	11	1	17.19%	1.56%
65-74	0	0	0.00%	0.00%
Total	64	64	100.00%	100.00%

It was evident that owner-managers of growing business in Wales had varying educational backgrounds (see Table 8.15). Of the 64 owner-manager, 48.44% were educated to degree level or above. A further, 29.69% had obtained either A levels or an HND. Only 5 (7.81%) owner-managers stated that they had not achieved any formal qualifications.

Table 8.15: Education

Classification	Frequency	%
None	5	7.81%
O level	9	14.06%
A level	13	20.31%
HND	6	9.38%
Degree	28	43.75%
Masters	2	3.13%
PhD	1	1.56%
Total	64	100.00%

Evidence from Table 8.16 shows that the owner-managers involved in the study had gained a wide range of experience in a number of different business areas. The most common business experiences cited were general management (73.44%) and industry experience (71.88%). It was also evident that whilst not all owner-managers stated that they had industry experience, they were invariably part of an owner-management team that did posses industry related experience.

Table 8.16: Previous Experience

Type	Frequency	%
General Management	47	73.44%
Small Business Management	35	54.69%
Self Employment	25	39.06%
Industry Experience	46	71.88%
Marketing	28	43.75%
Finance	23	35.94%
Business Failure	17	26.56%

Interestingly, a number of owner-managers had either had experience of prior self-employment (39.05%) or small business management (54.69%). In addition, 26.56% of owner-managers also reported that they had experience of business failure.

8.2 Evidence from the Semi-Structured Interviews

Results from the semi-structured interviews are organised to answer each of the research questions discussed in Chapter five. To protect the identity of the firms and owner-managers pseudonyms have been used to refer to firms involved in this study. Short company profiles can also be found in Appendix three.

8.2.1 Influences upon Decision-making

During the semi-structured stage of this study it became evident that owner-managers were influenced by a number of personality characteristics and background factors. In addition to these influences, there was also a wide range of environmental and firm related factors that affected the strategic decision-making process. What was clear from the interviews was that, irrespective of size or industry, personality characteristics and experiential factors in conjunction with the aspirations of the owner-manager or entrepreneurial team were responsible for shaping the strategic direction of the firm. These influences were, in turn, influenced by a range of environmental and firm-specific factors, which also helped to determine the management development. Through a process of coding, these influences could be categorised as either entrepreneurial, background group dynamic or environmental decision-making factors.

8.2.1.1 Entrepreneurial/Owner-Manager Influences

A myriad of personal attributes that affected decision-making were identified during the research. Despite considerable heterogeneity, characteristics such as the need to achieve and make things happen and the propensity towards risk were commonly cited by owner-managers as factors that consistently impacted upon decision-making.

<u>Achievement Motivation</u>

In all cases the owner-managers showed an unswerving commitment to succeed. Within the study, all firms of all sizes, operating in the three broad industrial classifications contended that once they had taken the decision to start the business, the overriding motivating factor was to make sure the business was successful. Definitions of success however, varied. Some owner-managers stated that they originally had no desire to start their business but due to factors such as unemployment, company restructuring and simply being unemployable had come to the conclusion that starting their own business was a viable alternative. For example, the owner-manager of Computer Ltd stated:

> *'I had always been involved in the computer industry…changes in my last firms left me redundant and I was faced with the dilemma of either looking for another job or realise my ambition of starting my own business.'*

Similarly, the owner-manager of Laser Ltd, due his expertise as a trouble-shooter found himself:

> *'Unemployable…the thing is after you are brought in to do a job, once its done there is rarely a position left for you anyway.'*

One female entrepreneur of Pate Ltd suggested the primary reason behind business start up was to find a means of supporting the family:

> *'As a recent divorcee…I needed to find a means of supporting myself and my three children.'*

Other owner-managers stressed that they had always wanted to start their own business and that certain 'chains of events' had led them to finally start their own business. The owner-manager of Independent Ltd reasoned that:

> *'Before this I was working with Abbey National…I had moved myself and my family to North Wales to manage a branch…when a promotion came up in London I decided that I didn't want to move so after a brief spell at a solicitors, where I met my existing business partner…the decision was made to start this business.'*

Notwithstanding these differing reasons behind business start-up, the semi-structured interviews emphasised that once the business had been established the entrepreneur or owner-management team acted as a driving force, moving the business forward to meet its main objectives. This is best illustrated with reference to the owner-manager of HR Consulting:

> *'The only constraint the business has in terms of achieving its goals is me...I strongly believe that any barrier to growth for this business is self-limiting.'*

In recognition of this belief, the owner-manager of this small service firm argues that his need for achievement had ultimately shaped the evolution of the business. Within the interview the owner-manager also alluded to the fact that this motivation drove decision-making. The need for achievement was common amongst the owner-managers involved in the study. Other owner-managers also contended that the motivation to succeed always manifested itself in the strategic decision-making process and that in the past decisions concerning organisational development and future objectives were closely linked to this characteristic.

It was evident that whilst all owner-managers had a desire to succeed, irrespective of size and industrial classification, decisions were also associated with the extent to which the owner-manager or entrepreneurial team believed they could make things happen. In this sense, it was argued that the degree to which the owner-manager displayed an internal locus of control determined, to some extent, the boundaries of a firm's objectives. This fact is best illustrated with reference to two firms, Phone Ltd a service related firm and Pet Food Ltd a firm operating in the manufacturing industry. The owner-managers of Phone Ltd have one clear business objective – to create a saleable product by the year 2005. To this end, they maintained that:

> *'At first we were reserved, grateful for customers, we were blinkered...now [we believe] that we influence the environment...and that our fate is in our hands.'*

Conversely, the owner-managers of Pet Food Ltd suggested that they had to make the best of any given situation. They felt that they were at the mercy of their industry, which was undergoing a number of changes, and hence, their need to succeed was linked more to making the best use of their skills and resources and adapting their business to meet these changes. In both cases the owner-managers reported that they were strongly driven to succeed but it was apparent that whilst the owner-managers from Phone Ltd believed that success would result in building a fast growing business, the owner-manager of Pet Food Ltd defined success more in terms of survival. This was supported further by the owner-manager of Pet Food Ltd who also stated that changes in the pet food industry had seen many business closures in the last 12 months.

It can therefore be argued that the extent to which an owner-manager or entrepreneurial team assume that the ultimate success of the business is due to their efforts and activities also affects the decision-making process. Again, looking across the axis' of industrial classification and firm size, no clear patterns emerged. Whilst larger firms seem to be more confident in their ability to pursue their strategic goals, some smaller firms also displayed a strong sense of mission. Similarly, the content of these missions varied enormously yet the semi-structured interviews did show that the vision of a company did exert a considerable influence upon firm decision-making. For example, in many cases firms alluded to the fact that they had a range of financial objectives. Smaller firms however, tended to be either sales or customer driven and in these circumstances it was evident that owner-managers were inclined to shape decisions to meet their objectives. A comment from the owner-manager of Accounts Ltd supported this observation:

> *'We are a service driven company...I believe that things should be done in a particular way.'*

Nonetheless, these objectives were not confined to smaller businesses. The belief or particular vision of the entrepreneur or owner-management team was also responsible for determining the strategic direction of a number of larger firms in the manufacturing sector. In one case, the owner-manager of Plastics stated that:

> *'We have a particular view of how things should be...you need to be different, you can't use the past as a reference point, you need to make decisions about now and the future...I believe strongly in the fact that just because its been successful in the past doesn't mean its going to work in the future.'*

He went on to say:

> *'We bring new things to market through innovation and creativity...we are constantly looking out for new opportunities and we always look at ways to chase them.'*

This sentiment was echoed by the owner-manager of Laser Ltd who commented that his company would:

> *'Continue to innovate...otherwise we will become a "me-too" company reliant on the ability to take business away from competitors...we want to create and develop new markets and realise new opportunities that can't easily be taken from us.'*

In addition, objectives were not confined to financial measures such as increasing turnover or innovation. The same things that influenced the decision-making of owner-managers in smaller companies also drove owner-managers of medium sized businesses. Some companies contended that they were more interested in, and derive more pleasure from creating a business that provided employees with secure employment or offer a valuable service to customers. What emerged from the interviews was that business founders and owner-management teams drove the growth oriented businesses in this study. Moreover, as firms grew and experienced change it was evident that these drivers were also subject to change and modification. In the case of Timber Ltd the owner-manager(s) confirmed that:

> *'We are all motivated to take the business forward although I think we tend to agree that our aspirations have changed according to previous changes. In the beginning it was about survival and building up a successful company that would support our needs. Now it is a case of also supporting the needs of our staff.'*

Interestingly, a number of owner-managers alluded to the fact that decision-making was influenced by a paternal instinct to ensure that their employees were cared for. For example, the owner-manager of Garden Partnership commented that:

> *'We make decisions with our staff in mind...we therefore have no desire to achieve past the point where our needs and the needs of our staff are satisfied.'*

One interesting observation, in relation to the needs of staff influencing decision-making, was that in the majority of cases family owned businesses displayed this paternalistic attitude. Whilst this attitude was also observed in interviews with non-family firms, these firms tended to approach the issue of employee satisfaction from a more strategic perspective. One owner-manager of the small public relations company, Media, argued that:

> *'It sounds silly but I'm not that motivated by financial reward...I am more concerned about my staff not burning out...what I have achieved is a culture that supports both the social and financial needs of employees and ensures that my philosophy of being good at what we do is maintained.'*

Furthermore, in the case of HR Consulting the owner-manager contended that:

> *'My belief in performance through people means that this philosophy impacts upon how I make decisions...When I first started out, for example, my business plan lacked financial projections...when asked why, I replied that I felt the success of the business would ultimately depend on its people.'*

In both these examples, the owner-managers implied that the decision to create a culture in which staff could operate at an optimum level was geared to the primary objective of the business. In contrast in the family owned firms, it was evident that this distinction had not been made. In many cases, staff in family owned firms were considered to be, to all intents and purposes, part of the owner-manager(s) family. Furthermore, from the interviews conducted, it was obvious that decision-making in all firms, irrespective of size and industrial classification, included employees as a determinant of strategic decision-making.

Risk and Opportunity

The interviews also highlighted that risk and opportunity were also considerable influences upon strategic decision-making. All owner-managers in the sample raised the issue of risk. Risk was viewed as a necessary decision variable and the majority of owner-managers submitted that their perception of risk always affected their decision-making. In some cases owner-managers displayed a positive attitude to risk. In the case of Media the owner-manager submitted that:

'Despite our growing asset base...we continue to see risk in a positive light...we have grown more confident in our ability to make decisions and we feel that if we hide from risk we will also hide from its rewards.'

The owner-managers from HR Consulting and Phone Ltd, who commented respectively, also supported this attitude:

'The only risk I have taken is leaving the security of what I already had...its now up to me.'

'We always consider risk and our experience now tells us quickly what is right for us...we enjoy the fact that our future is dependent upon our next decision.'

These two owner-managers ran service-oriented businesses that employed less than 20 people. Both agreed that their decision-making process was strongly linked to their positive attitude towards risk. Interestingly, these supposedly cavalier attitudes to risk were not common amongst the other firms in the sample. The majority of owner-managers from both service and manufacturing firms maintained that their decisions were not always made on perfect information but due to previous success and an element of good fortune they were more inclined to make decisions despite uncertainty. Some owner-managers also described how in the past they had felt the success of previous decisions had been purely down to luck. For example, the owner-manager of Sandwich Ltd stated that:

'I tend to think that we can now make things happen but I am also acutely aware that sometimes you need to get a lucky throw...in our history we have had times where our direction has been decided by a toss of a coin...but we have always believed that we do have an input into our future...although you also have to be ready to make the best of any luck that comes your way.'

Moreover it was evident that many owner-managers had, over the years, grown in confidence in their ability to evaluate risk and minimise uncertainty. Others stated that their propensity to take risk had been tempered by past success and the fact that they now had something that was worth protecting. There was also evidence to suggest that firms had become prudent decision-makers and were only willing to take risks if there was a good chance that they would succeed. This was summarised by the comments made by the owner-manager of Timber Ltd:

> *'Success has altered our perception of risk and we now feel that we have more to lose if a poor decision is made...we now only take risks that will not effect our total business and we tend to pick our races to always give ourselves a good chance of winning.'*

This view was shared by the owner-managers from Training Ltd and Disaster Ltd who submitted respectively that:

> *'I'm certainly not adverse to risk...but I try and calculate risks...sometimes there are good gains to be got from simply putting your finger in the air...but there are also benefits from doing research. I think that when I started the company I had less to lose...but now I'm not willing to risk the company on an idea I had the night before.'*

> *'We are quite happy to risk the profits to realise opportunities but at the same time we won't risk the capital of the business...we like to think we make calculated risks.'*

At the other end of the spectrum, there were also a number of companies that argued that they were risk adverse. Interestingly apart from one firm, most companies in the industrial services/construction classification reported that strategic decision-making was essentially risk adverse. These firms maintained that decisions that contained unacceptable levels of risk were discarded. In addition, they reported that this attitude had often led them to introduce mechanisms that reduced risk taking. In one particular case the owner-manager of Rig Ltd stated:

> *'We minimise risks through our processes...we can take risks but we try and measure it, weigh up the pros and cons.'*

Risk aversion however, was not restricted to businesses in the industrial services/construction classification. In terms of notable differences between firms or differing sizes, it was observed that in general, larger firms commented that they had reached a point at which they were happy to take calculated risks that did not damage the asset base of the business. The owner-manager of Finance Ltd submitted that in his firm:

> *'Risk is geared to the business [objective] and there is a more scientific approach to risk assessment...we try and back winners and make sure we recover any investment as quickly as possible...opportunities that offer us these two factors are considered very attractive.'*

The owner-manager of Food Ltd corroborated this view:

> *'[There is] always danger in pursuing too many opportunities because there is a tendency to take your eye off the ball...we have to be disciplined and not take unnecessary risks...we can no longer be impulsive but need to be more scientific.'*

In contrast, some smaller sized firms felt they had little to lose from taking risks and they reported that their confidence grew as they reaped the reward from taking risks to develop the business. In fact, the owner-manager of Network Ltd suggested that taking risks could be compared to asking a girl to dance:

> *'We have taken risks, but as we have grown we have become more confident in taking these decisions. I suppose its like asking a girl to dance, if she says yes, then you keep asking prettier and prettier ones until such time as one says no.'*

Overall, it was apparent that firms willing to undertake risk were also the firms that reported that their business objectives were driven more by the pursuit of opportunity than the resources currently controlled. In this respect, the influence of risk upon decision-making could be divided into two categories. In cases where risk was viewed as being a considerable constraint, owner-managers maintained that they were more conservative in their approach to exploiting opportunities and driven and often restricted by the need to secure further information to reduce uncertainty. Conversely, owner-managers who argued that they had become more 'risk-friendly' or possessed a positive attitude to risk were more likely to employ methods and knowledge that had assisted them in the past to evaluate the risk and rewards associated with particular opportunities. Notwithstanding these two differences, evidence from the semi-structured interviews suggested that risk and opportunity exerted a considerable influence upon firm decision-making.

8.2.1.2 Background and Experiential Influences upon Decision-making

The interviews also highlighted that there were a number of background factors that influenced the decision-making of firms in this study. These could be conveniently organised into two broad categories – demographic factors and experience. Evidence from the interviews suggested that whilst previous experience contributed significantly to decision-making, demographic influences, with one notable exception, were generally considered unimportant in terms of their impact upon the strategic direction of firms involved in the research.

Demographics

Following on from the concept of risk and opportunity was the influence of age upon decision-making. Apart from this factor, owner-managers did not feel that their background demographics substantially influenced the strategic direction of their firm. The only exceptions were two family-owned firms in which business aspirations were inextricably linked to the needs of the family. In the case of Hotel Partnership, the owner-manager stated that there were considerable differences between what he would like to do as a business person and what he would actually do as a son, husband and father. For example when talking about the future of the business the owner-manager commented that:

> *'While there is a need to succeed, this need does not extend past the primary motivation behind starting this business which is to basically secure the future of the family.'*

The owner-manager of Garden Partnership echoed these sentiments arguing that:

'I suppose we are motivated people but not to the extent to where we want to be rich...we just want to be comfortable...if we become millionaires than so be it...but success is not about money for us but rather providing for the future of our family and our staff.'

In these two cases, it was evident that the need of the family was an overriding consideration, exerting a substantial amount of influence upon decision-making.

Returning to the demographic factor of age, it was acknowledged by a number of owner-managers that their age had severely affected their overall aspirations for the business. The owner-manager of Consultancy Ltd went as far to say that:

> *'We are now more motivated by the pay packet whereas in the beginning we were very much more client driven…our aspirations are restricted to that of planning our retirement and passing the business on to our children…we just want to earn enough to support our standard of living.'*

This was a common theme amongst the older owner-management teams and entrepreneurs and it is reasonable to conclude that there seems to be a relationship between age and the aspirations of the owner-manager. Evidence from these interviews suggests that as owner-managers or entrepreneurial teams grow older, there is a noticeable change in their business aspirations, which ultimately influences the decision-making process. This can be illustrated with reference to Accounts Ltd, which is currently owned and managed by two individuals. One owner-manager is considerably older than the other is and consequently there is a degree of conflict as to what direction the firm should take. In fact, the older owner-manager stated that:

> *'Aspirations for the future differ somewhat because of our ages. He wants to continue to make the business work better and I just feel that its time to put my feet up and enjoy the rewards of our success.'*

The effect of age upon decision-making was also highlighted by the owner-manager of Independent Ltd who reported that age constantly frustrated decision-making. In this sense, he argued that when he was younger he felt like he had plenty of time to put right any mistakes he made but as he got older he felt that he had more to lose and that any mistake could result in lose everything that he had achieved:

'We still take risks although age has certainly had an adverse effect. When you are young you have time to put things right...now I have the wealth there are other things that need to be taken into consideration.'

Unlike age, education did not seem to exert much influence upon the decision-making process. The majority of owner-managers suggested that whereas education provided them with some information about various practices that could be used to manage growth, most of their business education occurred after starting the business. In one or two cases however, owner-managers did submit that education had proved to be an important factor, influencing decision-making in terms of providing them with valuable technical know-how. Nevertheless, it was apparent that, in the majority of cases, education was not a major influence upon decision-making. For example, the response from the owner-manager of Design Ltd echoed the sentiments of other interviewees:

'My education gave me a start in the industry...but my industrial experience has since proved invaluable in making strategic decisions.'

<u>Experience</u>

One of the most notable observations was that in almost every interview owner-mangers contended that past industry experience had a significant impact upon decision-making. During all but one of the interviews, owner-managers reported that they had gained previous experience of their respective industries. Furthermore, the decision to start the business was linked to this experience and in cases where the owner-managers had started the business due to a particular opportunity it was evident that the opportunity had been formulated from industry experience and knowledge. For example, when talking about why the decision had been made to start their business, the owner-manager(s) from Timber Ltd commented that:

'We all had a desire to start our own business and impose our vision upon the industry. In the end the decision to make a go of it was borne out of opportunity and an element of dissatisfaction.'

This rationale was also cited by a number of owner-managers across the different classifications of size and industry. Moreover, the owner-managers interviewed all alluded to the fact that previous industry experience had a significant impact upon the decision-making process. Many contended that their business was organised from their understanding of the industry and that when decisions were made, they were made in response to their perceptions of their industry based on previous experience. This was highlighted by the owner-manager of Crane Ltd who stated that:

> *'We compete in a harsh industry...our experience and knowledge of how the industry operates has stood us in good stead and has enabled to make informed decisions about the firm's future.'*

Within the context of previous industrial experience it was also evident that the knowledge acquired whilst working in a particular market or industrial sector had been utilised by owner-managers in deciding the strategic direction and scope of their firms. In the case of Independent Ltd, the owner-manager submitted that the decision to start the business was due in part to a growing realisation during salaried employment that consumers wanted quality advice and choice. He also argued that this knowledge had essentially determined the basis on which his firm would compete with incumbent firms and still remained at the heart of his firm's competitive advantage:

> *'It was apparent that customers were demanding choice as well as quality. My old employer didn't want to offer it...so this and a desire to stay where I was prompted me to take the plunge and start this business.'*

Most of the owner-managers interviewed commented that in addition to having industrial experience they had also secured a wide range of management skills during their time in employment. Some owner-managers reported that they had previously occupied management positions that involved running a small or large company whilst others had acquired more specialist competencies. These specialist skills include marketing, sales, human resource management and technical expertise.

From the interviews it was observed that owner-managers in the three broad industrial sectors identified in this study utilised different skills. For example, within the service sector, owner-managers reported that skills that enabled them to the deliver a quality service were of great importance. In general, these owner-managers contended that previous marketing, sales and personnel or human resource management experience had been utilised in the formulation of business strategy and organisational development. The owner-manager of Media provided confirmation of this fact:

> *'I am from a public relations and marketing background...and as a result I must concede that I have tended to look for business in this area and make decisions based upon this experience.'*

In contrast, owner-managers from the industrial services/construction classification reported that the overriding success factor in their industry related to the ability of a firm to build good relationships with clients and customers. Consequently, it was submitted that interpersonal skills were highly valued. The owner-manager of Contractor Ltd expanded on this point, stating that:

> *'In our industry, a job is carried out by a number of different firms...We, ourselves use a wide range of subcontractors to do the work we are unable to do...our reputation is therefore dependent upon effectively managing this complex arrangement and making sure that we maintain a good working relationship with all concerned.'*

Owner-managers from manufacturing firms however, suggested that their experience had to cover all elements of the production process. These owner-managers cited an extensive range of skills that they had gained from previous experience. These skills included finance, quality control and total quality management.

In addition to industrial and management experience, a number of owner-managers reported that previous firm ownership and prior experience of starting and running a small business also exerted a considerable influence upon decision-making. In this sense, they maintained that practices that had served them well in their previous venture were often incorporated into the company whilst processes that had proved to be of little value were usually rejected as decision-making tools. Owner-managers also suggested that as their business developed they had improved their understanding of practices such as financial management, marketing and sales and learning what management tools could improve strategic decision-making. This was highlighted in a number of interviews but most notably in the interview with Timber Ltd:

> *'So far we have found ourselves specialising in certain aspects of the business...one of us concentrates on financial management, one on marketing and the other on operations. We can't say that we had these skills before we started the business but we can say that up to now we have been able to adopt a learn as we go approach.'*

In general, it was evident that owner-managers in this sample of interviews acknowledged the importance of previous industrial and managerial experience. Perhaps unsurprisingly, this experience was related to the industry that their firm currently operated in. Furthermore, observations made from the data seem to confirm that the skills, knowledge and competencies of the owner-manager or entrepreneurial team influence strategic decision-making. Previous self-employment and management expertise was also considered by owner-managers to contribute to the decision-making process. Moreover, experiential learning was cited as an important factor in determining the content of decision-making. In other words, it can be surmised that the experience and skill sets of owner-managers are dynamic and are subject to temporal change. Conversely, education and other background factors did not seem to have a significant impact upon decision-making in the firms interviewed

8.2.1.3 The Influence of Group Dynamics upon Decision-Making

Sections 8.2.1.1 and 8.2.1.2 have discussed the impact of certain characteristics upon the strategic decision-making of growth firms in Wales. The interviews also highlighted that in cases where businesses had more than one owner-manager, the decision-making of the firm was also influenced by a number of 'group dynamic' factors. For example, in the case of Design Ltd, one of the owner-managers had gained considerable management experience in managing a number of companies. In contrast, the other owner-manager possessed specialist expertise in design and print. This 'marriage' had provided the firm with a good managerial base in which one owner-manager focused upon the creative and day to day side of the business and the other was left to consider firm development and business strategy.

This kind of relationship was regularly observed during the study. It was made clear during the interviews that the interaction between members of owner-management team was a key determinant of business development. It was also evident that within each firm, there was constant pressure to meet the needs of all owner-managers. Where the owner-management team shared a common goal such as in the case of Phone Ltd, the dynamic further assisted the achievement of business objectives:

> *'My know-how and technical knowledge combined with his flair and ability to generate ideas means that we are totally involved in the business and totally committed to achieving our overriding business objective.'*

Perhaps surprisingly there are no instances where the objectives differed significantly, from owner-manager to owner-manager. Nevertheless, owner-managers that were part of an entrepreneurial team were quick to point out that compromises had to be made between the personal aspirations of owner-managers and the objectives of the firm. Thus, in many cases either the objectives of the firm or the aspirations of owner-managers had superseded one another. Of particular interest was that in a number of cases, owner-managers stated that fundamental differences had turned out to be central to overall success. The owner-manager of Plastics Ltd explained that:

> *'We are 70% similar, but it's the 30% difference that makes it work. [My Partner] is the fast fly, lets do it type. On the other hand, I'm the guy who says hold on, lets look at this more closely type.'*

This relationship was quite prevalent and many owner-managers contended that these differences had turned out to be significant in terms of developing a successful business. Another example of this relationship was illustrated by the owner-manager of Accounts Ltd who contended that the differences between himself and his partner had been instrumental to firm success. In this sense, he argued that his impulsiveness and risk-taking had been tempered by his partner's scientific approach to assessing opportunities and in contrast his motivation to succeed forced his partner to always consider alternatives:

> *'I tend to provide the drive, the vision and like the thrill of the chase...my partner is more scientific, practical, analytical and conservative and in the past he has often been described by others as my cold shower.'*

Notwithstanding the fact, that these relationships were often viewed as being beneficial to firm growth and development, it is pertinent to note that in situations where an owner-manager enjoyed a majority shareholding, the aspirations of other owner-managers were sometimes discarded. For example, the owner-manager of Media submitted that:

> *'I have a 90% share of the business and the board has 10%, although decisions are taken to the board I have the power to override the decision if I think the decision will take us away from my vision.'*

This dominance was also evident in a number of larger companies in which one owner-manager enjoyed this power. For example, the owner-managers of Laser Ltd and Finance Ltd who both reported that their majority shareholding always exerted a significant pressure on the strategic direction of the firm:

> *Laser Ltd: 'I am the majority shareholder and therefore I play a central role in deciding what the firm does and its overall direction.'*

> *Finance Ltd: 'whilst there are a number of minority shareholders, the principal shareholder is the real driver behind the company and gives the business its direction.'*

Overall, there was little difference between the group dynamics of the smaller and larger firms in this study. In addition, the interviews confirmed that there was a considerable degree of heterogeneity between the competencies, aspirations and experience of owner-management teams. In general, evidence from the interviews seemed to confirm two things. Firstly, in the majority of cases these differences were considered conducive to strategic decision-making. Thus, owner-managers were aware that differences in personality, background experiences and skills usually led to more informed and balanced decisions. Secondly, despite this recognition, in cases where one owner-manager had the advantage of possessing a majority shareholding, they were not averse to exercising the rights associated with this power to override consensual decision-making in favour of their own aspirations or to ensure their vision remained intact.

8.2.1.4 Internal and External Factors that Effect Decision-Making

Market fluctuations impacted upon the decision-making of all firms. Moreover, the extent to which firms felt they had the ability to successfully realign activities to maximise opportunities also exerted a considerable influence upon the strategic direction of firms in this study. Whilst at first glance there seemed to be some resigned acceptance of varying market demand, legislation and macro economic effects on the relative success of the business, all companies had a positive outlook on how change could benefit and enhance current activities and operations. For example the owner-manager of Pet Food Ltd submitted that:

> *'We have to accept that the industry is changing…the fact we have so far survived this upheaval and know where the industry is heading means that we can assess where this company should be heading and what it should be doing.'*

Several companies cited problems with customer dependency and in particular, Food Ltd reported it was tied exclusively to a large retail multiple and thus decision-making in this firm for example, was invariably linked to satisfying this need. In contrast, other firms who submitted that customer dependency was a major factor in determining strategy stated that they were currently looking at ways to decrease dependency through the exploration of new markets and attracting new customers.

A problem faced by all firms regardless of size or industrial classification was the extent to which they felt confident in their ability to effectively utilise resources to match environmental change. All cited management and labour as capabilities that had to be considered when making decisions and if these resources didn't exist, then these short falls were often perceived to be detrimental to a firm's competitive advantage. This was highlighted respectively by the owner-managers of Recruitment Ltd, Pump Ltd and Independent Ltd:

'We are in the business of labour, if we can't find suitable management people for ourselves it seems unlikely that we will be able to achieve this for others.'

'People lack the skills that we need...we have had to look at recruiting people with the right attitude and then bring them up to standard on the job to meet our aspirations.'

'The right staff are so hard to find...our policy is to take on all the good ones regardless of whether we need them or not...we are growth oriented and therefore my philosophy is...we will need them.'

The cost and availability of finance whether from internal or external sources was also a significant constraint on decision-making and the meeting of future objectives. All owner-managers suggested that the lack of suitable capital was a considerable constraint to pursuing future growth. This was highlighted by the comments of the owner-managers from Laser Ltd who argued that:

'I have great ideas and need to develop them...but the lack of seed capital is a perpetual nightmare for this company.'

This sentiment was shared by the owner-manager of Electrical Ltd who contended that:

'Its simple...I only have enough cash to do certain things...It's a case of deciding what parts of the business need the investment most.'

In the case of larger firms there seemed to be some agreement that decision-making was more consensual than it was at inception. In this sense, owner-managers argued that they had allowed a number of people to enter the decision-making process. Nonetheless, firms like Plastic Ltd and Crane Ltd, despite their size, had kept any negative impact of consensual decision-making to a minimum through careful management implementation.

Crane Ltd: 'If too many people become part of the decision-making process it will become cumbersome and unruly...what I don't want is one big committee...after all when have you ever heard of a committee making a decision.'

As a result the decision-making process in firms employing more than 50 people tended to be more involved. This factor had led a number of firms to experience conflicts as to the best way to achieve company objectives. Regardless of this fact, it was evident that whilst the decision-making process arguably took longer, owner-managers submitted that subsequent decisions were invariably better informed. Moreover, in all cases the ability to override decisions still rested with owner-managers although all showed a degree of reluctance to undermine what they, themselves, had implemented and established over time. In all cases and in recognition of what they had achieved in terms of job creation, employee welfare and the motivation of employees was also a factor that often entered the decision-making process of firms involved in this study. All recognised the importance of others in achieving personal and company objectives and it was apparent that efforts had been made by all firms to improve the skills, motivation and commitment of staff at all levels of the organisation. This was particularly evident in the service sector with most firms citing the ability and capability of staff as considerable influences upon decision-making. There was however, a notable difference between businesses that could be classified as 'family owned' and those that could be considered 'professional' firms. Both types of firm wanted to employ staff with the right mix of skills and experience, but professional firms tended to view employees as a potentially valuable resource. In this sense, owner-managers of professional service firms contended that decision-making reflected the fact that the capabilities of staff could be expanded. In contrast, owner-managers of family run firms viewed the inadequacies of staff as a considerable constraint upon decision-making. Nevertheless, all firms, irrespective of size and industrial classification maintained that decision-making was shaped by the ability to recruit and retain the right people.

Finally, it was observed in the interviews that larger firms were more concerned with the activities of competitors. Whilst all owner-managers commented upon the importance of maintaining a strong competitive position, owner-managers from firms employing more than 20 people seemed to be more aware of competitor action. For example, the owner-manager of Design Ltd argued that:

> *'The firm is more aware of its competitors now...and they are more aware of us.'*

Moreover, owner-managers from firms employing more than 50 people such as Finance Ltd, Crane Ltd, Medical Supplies and Plastics Ltd demonstrated that they all possessed a comprehensive understanding of their markets and were knowledgeable about direct and indirect competition.

In conclusion, it was apparent that in addition to the personality characteristics, experience and group dynamic factors identified in sections 8.2.1.1, 8.2.1.2 and 8.2.1.3, there were also a wide range of internal and external factors that influenced the strategic direction of growth firms participating in this study. Furthermore, in general these influences were consistent across the classifications of size and industry.

8.2.2 Why Management Practices are adopted by Growth Firms

Evidence from the interviews discovered that there were many reasons behind the adoption of management practices by growth firms. The owner-managers interviewed described a number of management practices that had been implemented over the life span of their businesses ranging from budgetary control to formalised planning. The motives behind the adoption of certain management practices however, could be divided into three broad classifications. Firstly, the rationale for the introduction of certain management practices was derived from the past experience and background knowledge of the entrepreneur or owner-management team. Secondly, management practice adoption could be linked to the need to manage the growth process. Finally, owner-managers suggested that some management practices had been introduced specifically to assist the evolution of the firm.

8.2.2.1 Past Experience of the Entrepreneur/Owner-Management Team

During the interviews it was apparent that previous experience was declared as one of the main reasons behind the adoption of certain management practices. In addition, there was also evidence to suggest that whilst these reasons did not differ between the relative sizes of a firms, the type of industry that the firm operated in was responsible, at least in part, for the type of practices implemented by owner-managers.

In the industrial services/construction classification, a number of owner-managers argued that the main reason behind the introduction of certain practices could simply be attributed to their past experience. Within the context of this industrial sector, practices aimed at improving and building relationships with customers and suppliers were regularly cited as being a prerequisite of success. The owner-manager of Rig Ltd stated that:

> *'I have learnt that in this business you make deals with people not companies...I have therefore made sure that any practices that have been introduced have been developed with this in mind.'*

This was supported by a number of other owner-managers in the industrial services/construction classification. For example, the owner-manager of Contractor Ltd argued that:

> *'I decided that this company was about relationships...this has meant that I have tried to incorporate this belief in the practices that I have had to introduce as my company has developed.'*

Other owner-managers of firms in this classification went on to say that quality assurance related practices had served them well in the past. Moreover, they contended that the ability to continually maintain a certain standard was very important to on-going success. A few owner-managers went on to illustrate that the decision to incorporate these quality assurance practices had been based upon previous experience. The owner-manager of Engineer Ltd commented that:

> *'I had previous experience of ISO 9000...when I decided to start my company it was one of the first things I wanted to introduce...I felt that it had worked well for my previous employer and saw no reason why it wouldn't work for me.'*

The issue of past experience in terms of building relationships was also illustrated by a number of owner-managers of service and manufacturing firms. These owner-managers cited that their background in the service industry has led them to implement management practices that sought to improve customer service. The owner-manager of Computer Ltd characterised this perspective when he concluded that:

'For me its always been about the customer…this is something I believe strongly in and my previous experience in this industry as a service engineer confirmed that I was right. In the beginning I wanted to prove this so when it came to deciding how to develop this company through management this experience meant that all systems were developed with the customer in mind.'

In addition to the experiential reasons behind systems of quality and building customer relationships, the owner-manager of Crane Ltd suggested that one of the management tools that he brought to his business was the importance of setting and measuring objectives.

'I think that I was the main force behind the adoption of making sure we set objectives…previous experience told me that if we didn't set objectives we were likely to lose our way.'

The importance of past experience in determining the adoption of management practices could also be seen in firms operating in the manufacturing and services industry. The owner-manager of Phone Ltd contended that:

'We have always used business and marketing plans…the reason behind this is that I come from a management background in a large telecommunications company where these things were done religiously.'

This owner-manager went on to say that his experience had given him the view that in order to be successful and achieve the growth objectives that he and his partner had set for the business, the introduction of professional management practices would also be important:

'We quickly realised that we would have to introduce formalised management practices to help us grow and meet our primary objective of building a saleable product.'

Other owner-managers of service oriented firms argued that they had always seen professional management as a perquisite for success. The owner-manager of Media suggested that:

> *'I always believed that this company should be run as a large firm…I come from a large company and have tried to always put management practices in place regardless of our size. Acting like a big company has stood us in good stead.'*

This was a commonly held view across all size and industry classifications. There seemed to be a great deal of consensus that management practices such as formalised business planning used by what were to perceived to be larger companies also had some use to the smaller firm. The owner-managers from Laser Ltd and Pump Ltd commented that their previous management experience had taught them the value of these practices and as a result they had always tried to incorporate these practices into their firms from the very outset. The owner-managers from Consultancy Ltd, HR Consulting, Sandwich Ltd and Medical Supplies provided further evidence that previous experience was a key determinant of management practices adopted by growth. For example, the owner-manager of Medical Supplies stated that:

> *'The fact that I come from a financial management background meant that I was keen to introduce financial measures that could tell me whether I was meeting the objectives that I had set.'*

In all four cases, the owner-managers contended that their desire to grow had led them to introduce management practices before they were actually required. A few owner-managers however, adopted a different stance in relation to the adoption of management practices concerning business planning and objective setting. The owner-manager of Disaster Ltd argued that he had been brought up in the company which had always had an opportunity driven culture. This experience, meant that when it was time to succeed his father at the head of the company, he had found no need to introduce business planning:

> *'We have never set particular objectives...instead we look closely at opportunities that exist and decide which ones we are going to target...given any resources constraints that we may have...I think it would be difficult to run the business any other way.'*

This owner-manager went on to clarify this statement by saying that in the business of assessing the impact of disaster for insurance companies you couldn't realistically expect the company to target a certain number of disasters that may or may not happen. Instead, he argued that the company had to be geared to compete for the largest market share of the disasters that did happen. Similarly, one owner-manager of Pate Ltd argued that she had no previous experience of her industry and had to rely on instinct. In this sense, she contended that in the beginning, management practices had been introduced to fit her vision and to make sure the company developed within these boundaries:

> *'One thing that I have tried to do is involve my staff in the decision-making from the start. After all it is their livelihood too.'*

In this sense, the owner-manager maintained that she had always believed in people and felt that given the chance, empowered employees would be secure the long terms success of the business. The importance of vision was also highlighted by a number of owner-managers from differing industries and firm size groupings. The owner-manager of Recruitment Ltd stated that:

> *'This company has always been managed in line with my vision of the industry.'*

This was supported by comments made by the owner-managers of HR Consulting and Pump Ltd who commented respectively that:

> *'Some of the management practices I have introduced not only reflect my previous experience of the industry but how I think the industry should be.'*

> *'I have always believed in the ability of people and I have made sure that open communication exists here...we want all our employees to know what we are doing and why we are doing it.'*

These statements also implied that these owner-mangers felt that people were significant in terms of business success. In fact, many owner-managers stated that previous experience had illustrated the importance of involving employees in firm development and decision-making. Some owner-managers, such as the founders of Timber Ltd cited frustration as an employee as a motivating factor behind introducing an open communication system:

> *'We all felt that when we were working, we had good ideas that often went unheard as management felt we should just be doing a job. This was frustrating. When we finally, decided that it time to prove that we were right, we all decided that we would communicate with our staff and make sure they knew they could talk to us...It has worked well but there is room for improvement.'*

A few owner-managers however, had organised their firms and limited the introduction of management practices to ensure that their vision for the company remains intact. Others had looked at ways to implement practices that allowed the right culture to develop in order for the firm to remain successful. In both cases, these owner-managers cite previous experience as a possible reason behind these decisions. For example, the owner-managers from Media, HR Consulting and Recruitment Ltd all suggested that their previous experience of their respective markets or industry were primary forces behind building particular organisational structures. In contrast, the owner-managers from Crane Ltd and Hotel Partnership contended that, as a consequence of previous experience they had limited managerial development so that the decision-making process didn't become unnecessarily confused.

On the whole, the semi-structured interviews illustrated the importance of previous experience and competencies in the determination of management practices in Welsh growth firms. Management practices such as business planning, formalised decision-making, open communication, customer services and quality control could all be attributed to the preferences of owner-managers. In addition, it was evident that the way in which a company developed was also dependent on these preferences. Some owner-managers maintained that previous beliefs and experience had led them to organise their business professionally whilst others commented that they had simply taken their understanding of their respective industries to ensure success. In all cases, the fact that these firms had grown, irrespective of size or industrial classification, suggested that industry experience, however it has manifested itself, was a significant determinant of what management practices were adopted by these growth firms.

8.2.2.2 The Introduction of Management Practices to Manage Growth

The owner-managers interviewed as part of the semi-structured interview stage also contended that the rationale behind the introduction of certain management practices was to facilitate and manage the growth process. During the interviews a variety of different practices were discussed but it was evident that these practices had been introduced for the specific purpose of managing growth. These practices could be divided into two main categories. These were the utilisation of planning and control management practices and the implementation of financial reporting techniques.

<u>Planning and Control</u>

Probably the most significant reason for the introduction of management practices was the need for more formalised planning and greater control as firms started to grow and evolve. In this sense, it was observed that there was a relationship between the size of the firm and the degree to which planning and control had been formalised. In all cases, the owner-managers reported that their rationale for the introduction of these practices had been to implement management techniques that enabled them to manage growth. A number of owner-managers from the larger firms such as Recruitment Ltd, Crane Ltd and Plastics Ltd all commented on the importance of setting up control mechanisms that allowed them to effectively manage the business remotely. These control mechanisms varied in their sophistication but were all geared to ensuring that despite the owner-manager's lack of direct impact, the firm would continue to operate efficiently. For example, the owner-managers from Recruitment Ltd and Plastics Ltd both contended that one of the reasons behind the implementation of the ISO 9000 standard was to make sure that the activities of others were consistent across the business.

> *Plastics Ltd: 'The use of ISO 9000 has meant that we are more confident that operational activities are meeting are requirements...there is no longer a need for us to be so heavily involved in maintaining quality.'*

In addition to practices such as ISO 9000 to help the business meet a consistent standard in terms of operation, many of the larger firms in the study also suggested that the use of management information systems had also assisted the growth process. The owner-manager of Crane Ltd reported that the formalisation of information had been a major factor in enabling the company to manage its growth:

> *'We have formalised the process...once a decision has been reached systems allow it to be communicated throughout the organisation and operational controls ensure that the decision is implemented quickly...we are now at a size where we need to do this...we need to manage the business remotely. Management information systems are in place to let us do this and we feel that these practices give us a quick overview of what is happening in the company. In a way I suppose we have delegated the task of information retrieval in order to concentrate on the future of the business.'*

From this statement it was apparent that the owner-managers of Crane Ltd had implemented an information system through delegation and the introduction of various systems to assist the development of the company. Moreover, a number of larger firms such as Medical Supplies, Plastics Ltd, Finance Ltd and Recruitment Ltd had undertaken similar formalisation processes to improve the flow of information throughout their organisations. For example, the owner-manager of Medical supplies stated that:

> *'Management information systems and quality standards like ISO 9000 have been crucial to our success...as your company grows it becomes increasingly difficult to keep your eye on everything...You just can't keep all the balls in the air by yourself.'*

The practice of introducing planning and control practices to manage the growth process however was not restricted to the larger firms in this study. Several owner-managers from smaller firms implied that the process of managing information and maintaining consistency were important issues for their companies as they tried to manage the growth process. The owner-manager of Network Ltd discussed how he was just starting to introduce mechanisms and procedures that would standardise work practices and reporting systems:

> *'We are now of the size where I can't do everything and check up on what is being done...I have introduced feedback mechanisms, standard procedures and tried to create an information system that means I can manage the business from this office.'*

It was evident from this and other comments that as their firms evolved, owner-managers were looking at ways in which they could effectively manage growth transitions. For example, owner-managers from both the smaller firm size classifications stated that they were being put under increasing pressure to look at ways of controlling their companies. In one case, the owner-manager of Design Ltd argued that:

> *'We have started to look at standardisation as a means of control and we have already introduced a standard procedure to deal with all new business...in the beginning [my partners and I] could deal with new customers and run the business...I think they would both agree that this is becoming increasingly difficult.'*

This viewpoint was supported by a number of owner-managers and was best illustrated by the owner-managers from Laser Ltd and Rig Ltd who commented respectively that:

> *'The company has ISO 9000 so that takes care of quality and making sure we consistently meet a predetermined standard...we also have management reporting and communication systems to make sure people know what we are doing and why we are doing it...We are now in the process of upgrading our information systems so management can tell us what is happening.'*

> *'We have introduced more formalised procedures to measure our performance and the extent to which we meet our targets...we have also looked towards ISO 9000 as a means of improving efficiency and improve working practices and service delivery through standardisation.'*

These statements suggested that there had been a need to continually update the mechanisms that control the activities of the firms and provide information to the top management team. It also implied that the owner-managers were aware that in order to manage growth there was also a need to communicate in both directions. In other words whilst information flow into the decision-making process was important so was the flow of information from this forum to the different parts of an organisation.

Closely related to the issue of information and control was the observation that the majority of firms interviewed had formalised the planning process. In this sense, many owner-managers reported that they had found practices such as business planning invaluable as they attempted to develop the organisation. The degree of sophistication like other planning and control techniques seemed to vary with size. For example, the owner-manager of Food Ltd, employing over 200 people contended that:

> *'We have had to formalise our business planning activities as we have grown…it is no longer possible to keep things on an informal basis…if it is discussed and a strategy agreed then it is minuted and added to our business plan.'*

On the other hand, the owner-manager of Hotel Partnership, which employed 35 people, stated that:

> *'We don't need a formal planning process and we don't feel the need to document everything…we make a decision and it is communicated to our staff personally.'*

Nevertheless, it was observed during the course of the semi-structure interviews that the majority of firms had opted for formalised planning procedures as a means of managing the growth process. In many cases the degree of formalisation was related to size and also the extent to which other practices impacted upon the decision-making process. The owner-manager of Pate Ltd reported that:

> *'We have formalised the planning process and now document our strategies. We have also used IT [Information Technology] to implement management information systems which also provide additional data on things like business measurables and soft issues such as customers and suppliers.'*

Once again this statement not only illustrated the need to introduce formal planning practices to manage growth but also the need to improve the decision-making process.

Finance and Financial Management

Within the context of formalised planning and improved management information, the majority of owner-managers reported that one of the main improvements that had been made to manage growth was the implementation of financial management and reporting. In this sense, many of the rationales behind the introduction of planning and control practices related specifically to the management of finance. It was evident that, irrespective of size or industrial classification, that many owner-managers saw tighter financial control as an effective means of managing growth. For example, when asked why they had introduced financial management practices a number of firms reported that they believed that good financial management and budget control were instrumental to managing and facilitating growth.

> *Independent Ltd: 'Financial management is the key to growth...as we have grown we have continually had to improve the reporting systems that we use to assess performance and many of the financial controls have become increasingly complex.'*

> *Pump Ltd: 'We have a planned approach to planning including budgets, management accounts and forecasting...these have been very important in controlling our growth.'*

> *Pet Food Ltd: 'We are introducing systems that will tell us how we are performing...we need to know what we have before we can decide how to grow.'*

> *Contractors Ltd: 'I have always believed in the importance of financial management...we have found that budgeting and financial reporting have been crucial in the management of our growth.'*

All four statements advocated the importance of financial management practices to managing the growth process. This was a commonly held view throughout the sample. Without exception, all owner-managers interviewed reported that one of the principal reasons behind the adoption of financial management practices had been as a result of needing to control or manage the process of growth. Some owner-managers however, said that in retrospect they had found that some of the financial practices they had introduced to manage growth had subsequently an adverse effect on future growth. The owner-manager of Pate Ltd commented that:

> *'We have started to introduce proper budgets and started tightening the screw in certain areas where we constantly run over...but its difficult to do in a growing organisation.'*

The owner-manager of Sandwich Ltd echoed this sentiment:

> *'Financial management has helped us become more efficient, determine our pricing strategy and generally manage growth...but it seems that our reliance on these practices are now plotting against us pointing out all the problems of any plans for expansion.'*

In a few cases, owner-managers also contended that they had introduced the financial practices of invoice discounting or factoring to help manage the growth process. This was not limited to companies in any size or industrial classification. Of the firms interviewed it was evident that larger firms such as Recruitment Ltd and smaller firms typified by Consultancy Ltd and Computer Ltd had come to the conclusion that growth exerted considerable financial demands on the business. In response these companies employed factoring and invoice discounting to maximise cashflow. For example the owner-manager of Recruitment Ltd rationalised:

> *'We use factoring and it's the only way we could have grown so quickly, our finances are strong...and we still run our own sales ledger but we have the flexibility of invoice discounting.'*

Similarly, the owner-managers from Computer Ltd and Consultancy Ltd implied that the main reason for adopting invoice discounting had been to generate enough capital to finance the continued growth of the business. In fact, the owner-manager of Computer Ltd concluded that:

'Invoice discounting has been a technique that has proved to be an excellent way of resourcing growth.'

Overall, it was observed that the financial management practices introduced by owner-managers of Welsh growth firms had been geared to the management and resourcing of growth. Furthermore, the rationales provided by owner-managers were similar to those used to justify the introduction of more formal planning procedures and the implementation of management information systems. It is therefore reasonable to conclude that management practices such as financial reporting, budgeting and invoice discounting are utilised by firms to manage growth.

8.2.2.3 Managing Firm Development and Evolution

One of the most notable reasons behind the introduction of management practices identified during the semi-structured interviews was the importance of introducing new layers of management as firms evolved. Firm size was therefore an important factor and significant differences were evident in the data collected concerning the organisation of management in the growth firms involved in this study. In general, smaller firms in this study were more likely to have only developed management in one or two key areas whereas larger firms possessed more complex organisational designs. Nevertheless, regardless of size there was common agreement amongst owner-managers that there had been, or will very soon be a need to look at developing the management within their firms.

Firms employing less than 20 employees in both the services and industrial services/construction classification all contended that as they had achieved certain levels of success, they had looked at ways of implementing new layers of management to assist firm development. The owner-manager of Accounts Ltd reported that one of the main reasons why he had started to introduce new functional layers of management despite the comparatively small size of the business had been primarily to remove himself from some elements of the day to day management of the firm:

'It got to the point where the business was organised in a circular fashion, with everything coming across my desk...I found myself having to deal with all the problems of the organisation rather than the ones that I considered important.'

This view was echoed by the owner-manager of Media who commented that he had quickly taken the decision to employ a general manager to undertake some business tasks to alleviate the problems of trying to run and manage a business all by himself:

'I anticipated very early on that I needed a someone to help me manage the company so I brought in a general manager who was responsible for everything from bog rolls to the boardroom.'

In some cases, owner-managers stated that although they had recognised that the business was getting too large to manage effectively. The owner-managers from Timber Ltd were quick to point out that:

'It is getting difficult to manage the operations and [strategic] development of the business...[there is a] need to delegate authority and change the organisational structure and management of the firm...we are currently investigating how this can best be achieved.'

Other owner-managers of smaller firms contended that their decision to introduce new layers of management was directly related to their desire to grow the business. This was illustrated by the owner-manager of Phone Ltd who stated that:

'up until recently we didn't have any middle management, but to gain control we decided that we needed to put a management level in place. We introduced a retail manager to achieve this control over our branches but soon realised that to grow we needed to introduce an operations manager so we could spend more time away from the operational side of the business and concentrate on the future.'

This view was shared by a number of owner-managers in this size classification. For example the owner-manager of Accounts Ltd submitted that:

> *'As we go along, I need to bring people in that can take on responsibility...I must not keep control...I have just brought in another layer of management yet I still [seem] to be leading the company in a personal way.'*

This owner-manager, whilst highlighting that as with a number of owner-managers they had introduced management to take on some of the responsibility of running a successful business, also suggests that in some cases the management people introduced were not always willing or able to undertake this task. Within the context of this interview however, it was not made clear whether the owner-manager constrained this development. In other firms it was apparent that despite the introduction of new layers of management, these new levels had been introduced purely to manage a particular function or process.

This occurrence was particular evident in two of the three family owned firms involved in this study. Both the owner-managers from Garden Partnership and Hotel Partnership contended that they had introduced new layers of management to help ease the burden of managing a growing venture. Nonetheless, they both went on to say that the primary reason behind these appointments was one of business maintenance.

> *Hotel Partnership: 'The managers I have here at the moment are business maintainers, I haven't recruited anyone that can take this business forward.'*

> *Garden Partnership: 'I don't have anyone that will take this business forward...all my supervisors are capable or running the business when I'm away but I can't rely on them to be there to take this company where I want it to go.'*

In two of the smaller firms, the need to introduce new layers of management was linked to the desire of owner-managers to take a step back from the business and in some cases look at ways in which they could establish an exit route from the business altogether. The owner-managers from Consultancy Ltd and Engineers Ltd both reported respectively that:

> *'As it stands now...we are looking at introducing our children to the business so they can take it on.'*

> *'We have introduced a junior partner...someone that will one day be able to take this business on after we decide to leave it...at the moment he isn't involved in the [strategic] decision-making process but he is responsible for the day to day running of the business.'*

In contrast to the rationales given as to why new layers were introduced by smaller firms in the study, firms employing more than 20 people argued that the existence of new management layers were necessary in order to manage an increasingly complex organisation. In the case of Laser Ltd, the founder reported that as the firm had grown there had been a need to introduce management layers that offered the firm additional expertise and to replace staff that could no longer be expected to take it forward:

> *'As we have grown there has been a need to add expertise and replace staff that weren't really up to the task...due mainly to a lack of complementary skills.'*

Similarly, the owner-manager of Independent Ltd rationalised that he and his partner had decided to organise their activities so that one could continue to concentrate on operational issues and the other focus on building the company and achieving their growth aspirations:

> *'The decision was made early on for one of us to step back and concentrate on business development and growth.'*

This owner-manager went on to state that as a result he had established a board and re-organised the firm into four operating divisions. Each division had a 'sub-board' whose primary objective was to grow their particular business in line with the overall objectives of the company. The owner-manager also suggested that due to this re-organisation, the growth of the company would be essentially:

> *'Achieved through the efforts of others...I no longer have any direct input into the success of this business...I drive management to achieve our goals.'*

The owner-manager of Pump Ltd suggested that as the firm had grown there had been a notable shift away from the three partners doing everything from design, machine repair, staff counselling and all management tasks to being able to spend time looking at where the company had been, what it had achieved and most importantly where it was going to go. Furthermore, the owner-manager of Pate Ltd commented that her firm had basically gone from:

> *'A sole trader organisation...to a business run by its employees in which the management structure has effectively made me redundant.'*

As noted earlier the degree of complexity of an organisation's management structure was in the majority of cases, related to the size of the firm. Thus, in terms of the larger organisations in the study, there was evidence in the larger firms involved in the study that a degree of separation had been achieved between the firm and its founder or owner-management team. In the case of Plastics Ltd the owner-manager stated that:

> *'We have general managers in each of our businesses and we then have sales managers and sales operatives and then foreman and production operatives...we have structured the business to keep an element of control as we have grown...and on top of these layers sit myself and [my partner] who oversee the group's activities.'*

This statement confirmed that this firm had passed through a number of development stages. The owner-manager of Plastics Ltd implied that the reasons behind the implementation of new layers of management had been out of necessity and also to allow time the partners to look at the strategic future of the business. Owner-managers from other larger firms in the study also reported that they had introduced management to undertake a variety of functional tasks. The owner-manager of Recruitment Ltd argued that whilst he was the sole owner of the company, decisions were increasingly made by considering the views of management. He contended that as the firm had developed, he was driven to introduce specialist managers and other key personnel to manage the various facets of the business. Similarly, the owner-manager of Food Ltd stated that as his firm had grown:

> *'They had tended to recruit the necessary management skills...and while in the beginning we had the knowledge and enthusiasm to make it work...we soon realised the importance of introducing different types and levels of management.'*

He went on to say:

> *'The introduction of management however, is a difficult thing to do in a growing business, often once you have implemented someone to do a job, you need somebody else to do another...it seems no sooner have we drawn up a new organisational chart that it is out of date and we need a new one.'*

This comment illustrates the problems that owner-managers faced in trying to introduce new layers of management. Some concluded that the best way to ensure that they always had the necessary management to assist firm development was to implement it before it was needed. Others argued that financial constraints meant that having management in place before it was needed was often unrealistic. This viewpoint was best summarised by the owner-manager of Sandwich Ltd:

> *'I'd like to think we have become more professional...in the beginning we didn't have the money to employ decent managers to drive the business and it was left to us, the entrepreneurs, to develop the company...once you have the mass, getting experience and new skills seems like a good idea if you have the capacity to do it.'*

Nevertheless, all the larger firms in the study were quick to acknowledge that the need to manage firm development and plan for the future were major factors influencing the introduction of new layers of management. In addition, larger firms were more likely to rationalise the use of non-executive directors and a board of directors as additional management techniques to support the evolution and firm development. The utilisation of non-executive directors or a board of directors however was not however, restricted to larger firms in the study and it was evident that several of the smaller firms from all three industrial classifications also considered their use to be critical to firm success. For example, the owner-managers from Contractors Ltd, Media and Laser Ltd all stated that the overriding reason for introducing these management layers was geared to improving the knowledge base of the decision-making forum. As the owner-manager of Contractors Ltd surmised:

> *'It used to be me who decided on what we were going to do and ways we should achieve it, the board has been established in recognition of my weaknesses and now where we go, what we want and how best to do it is much more of a group effort.'*

In terms of the larger firms in the study, Sandwich Ltd, Food Ltd, Recruitment Ltd, Crane Ltd, Finance Ltd and Electrical Ltd all alluded to the fact that they had established a board of directors. They confirmed the views of other firms in the study regarding the rationale behind the implementation of a board structure. In contrast, some of the larger firms interviewed reported that instead of implementing a board to oversee the activities of the firm, they had opted to divide the company into a number of divisions and appoint managers to head up these divisions. These managers in turn were responsible for the operation of certain departments, reporting directly to the owner-manager. Interestingly, the owner-managers of both Medical Supplies and Disaster Ltd reported that whilst they had appointed senior managers to undertake these roles, they had taken control of a particular division in addition to their role as owner-manager.

> *Medical Supplies: 'My general manager heads up marketing and sales and I deal with all the financial bits...I don't mind I quite enjoy the prospect of crunching numbers all day.'*

> *Disaster Ltd: 'We have two divisions, consultancy and testing...I head up the consultancy arm because that's where my expertise lies.'*

The reasoning behind these decisions in both cases was that the owner-managers were averse to the prospect of being totally separated from their firm's operation. In this sense, they both argued that they had to be involved in areas where their respective competencies could be put to good use as well as concentrate on the strategic issues. Notwithstanding this fact, from the data above it can be surmised that many owner-managers were willing to release an element of control, rationalising that it was necessary to facilitate the survival, growth and development of their firms.

8.2.3 Management Practices as Sources of Sustainable Competitive Advantage

Throughout the semi-structured interview stage of this study, owner-managers showed that they were acutely aware of their firm's competitive advantage. In general terms, the competitive advantages discussed tended to concentrate on building relationships with customers and suppliers, providing a quality service or product and achieving consistent delivery. Within the context of the research problem, the owner-managers interviewed reported that certain management practices were geared to sustaining competitive advantage. In this sense, the majority of owner-managers implied that some of the processes and systems implemented had assisted their firm in improving its overall market position by enhancing its range of existing competencies and maintaining competitive advantage. During the interview process, it became evident that regardless of size or industrial classification, certain practices were considered to be sources of competitive advantage by the owner-managers of Welsh growth firms. These practices could be broadly categorised as practices that sustained or maintained existing competitive advantages or processes that enabled the firm to improve their overall competitive position.

8.2.3.1 Maintaining Existing Competitive Advantages

Whilst the primary sources of competitive advantage did not vary significantly across the classifications of size or industry, the way in which firms maintained this competitive advantage did. Nevertheless, it was apparent that practices such as marketing techniques, routinisation and the protection of patents and intellectual property rights had been adopted to provide firms with the ability to sustain competitive advantage.

Marketing Techniques

The practices that were most commonly cited as being a significant contributor to competitive advantage could be loosely defined as being marketing practices. In smaller firms, marketing was primarily used to build customer relationships and establish a reputation with a range of customers and suppliers. In the case of Engineers Ltd, the owner-manager reported that the principles of marketing were at the core of his company's goal to:

> *'...[Give] our customers the very best...so they continue to come back.'*

Moreover, the owner-manager of Media maintained that at the heart of his company's philosophy was a desire to:

> *'Really get into bed with our clients and find out what they really need.'*

This was a commonly held view amongst all firms in the 0 to 19 employees classification. Most owner-managers agreed that their marketing activity was geared to building trust based relationships with clients that were perceived to be mutually beneficial. One owner-manager of Consultancy Ltd argued that his company's competitive edge did not necessarily stem from offering a quality product or service but their ability to solve the problems of his customers:

> *'Its not about a better product, its not about speed to market…its about being able to provide solutions that customers cannot solve for themselves…its also about providing a professional, consistent service that is perceived to be of some benefit to your client.'*

This viewpoint typified the attitude of the majority of owner-managers in the 0 to 19 employee classification and also the perceptions of a number of owner-managers of firms that employed between 20 and 50 people. Despite these similarities, it was evident that firms in the services and manufacturing industrial classification tended to introduce more formalised marketing procedures to help support this objective than firms in the smaller firm classification. The primary motive for owner-managers in the industrial services/construction classification was to build relationships within the supply chain. These owner-managers contended that trust and reputation were critical to winning new contracts and maintaining their market position. Some of these owner-managers did not explicitly state marketing as being a key management tool but during the course of the interviews several references were made to managing relationships and ensuring that the needs of clients were consistently met. For example, the owner-manager of Insulation Ltd commented:

> *'We can offer the same level of service as the big boys…but our customers know that we have a more hands on approach.'*

This statement was supported by the thoughts of the owner-manager of Timber Ltd who stated that:

> *'We have tried to make as many of our products and services insular...by this I mean we are looking to forge stronger relationships throughout our supply chain...we match suppliers with customers, build relationships and generally make it difficult for our competitors to take either our customers or suppliers away from us. We entered this industry easily so it means that others can to...what we have tried to do is make sure that we are differentiated from the rest...and try and make ourselves a little bit special.'*

It was evident however, that whilst these competitive advantages were geared to marketing, there was little in the way of formalisation and most of these practices were derived from the vision of owner-managers combined with their understanding of a particular industry. Conversely, owner-managers from the service and manufacturing firms in the study indicated that they had formalised certain marketing practices in order to secure their competitive position. Smaller firms in both classifications had either just put in place or were contemplating practices that could build the corporate image of the company. The owner-managers from firms employing less than 20 people suggested that in the past relationships had been built on a personal level and it was becoming increasingly important for the firm to establish an image or reputation in its own right. For example, the owner-manager of Media contended that:

> *'Its time for this business to find an identity outside my personality and relationships with clients. In the past, companies have done business with [me] but I think its time that they did business with the company.'*

This sentiment was not only echoed by other owner-managers from the same size classification but also by owner-managers from larger firms. There seemed to be universal agreement that competitive elements of the firms such as service and quality should belong to the firm rather than an individual. For example the owner-manager of Independent Ltd argued that:

> *'We are efficient and customers trust our advice...as we have grown we have developed a strong brand image and established a superb reputation.'*

This owner-manager went on to say:

> *'We have formalised our relationships with clients and built processes and systems that tell us what the customer wants and how it wants it delivered.'*

These comments are indicative of the formalisation of marketing techniques within the organisations interviewed in this study. The formalisation process however, differed between firms employing less than 50 people. Some firms such as Contractor Ltd, Phone Ltd, Media, Design Ltd, Accounts Ltd and Laser Ltd opted for marketing plans, customer feedback and benchmarking against competition to gauge the quality and effectiveness of their services and products. Others including Pump Ltd, Computer Ltd and Consultancy Ltd preferred more informal approaches aimed at recording information from customers at a more personal level. Notwithstanding the methods employed, there seemed to be a general consensus of opinion between firms in all industries, employing less than 50 employees that marketing practices, in whatever shape or form, were sources of maintaining service oriented competitive advantages. Three notable exceptions to the formalisation of marketing were offered by the three family oriented firms in the study. All three owner-managers based their competitive advantage on their understanding of their industry and customers. For example the owner-manager of Garden Partnership concluded that:

> *'We are successful because I understand what our customer wants. This business is about service and building relationships with our customers and suppliers.'*

Despite, the apparent lack of formalisation in these organisations, all three owner-managers contended that the ability to meet the needs of customers and build a product or service that was perceived to be of some value was an important component of their existing competitive edge. In fact, the owner-manager of Pet Food Ltd stated that:

> *'We have to meet our customers demands and often exceed them...if we don't they will go elsewhere. Price is important, but value for money and establishing trust and been crucial.'*

The importance of marketing practices as sources of competitive advantage was most evident in firms that employed more than 50 people. The owner-manager of Finance Ltd suggested that one of the principal reasons behind the continued success of the business had been the implementation of a new marketing strategy. He explained that Finance Ltd has recently undergone a major marketing overhaul. These changes had led to the introduction of a virtual marketing team across the organisation that transcended traditional departmental barriers and was geared to improving service throughout the organisation:

> *'The virtual marketing team is one of the competitive advantages of this company...we have established a great team that deals with the various components of our business...by implementing a virtual marketing team, pertinent information concerning trends, innovations, competitor activity can be regularly fed into the decision-making process. This information, then generates a marketing strategy that then is implemented quickly via the virtual marketing team to all parts of the company.'*

To complement this process, the owner-manager of Finance Ltd also reported that the company used marketing techniques such as Porter's Five Forces Model and market intelligence on a continuous basis to improve the quality and scope of their service to customers. Other companies in this size classification such as Recruitment Ltd, Plastics Ltd, Medical Supplies, Food Ltd and Sandwich Ltd also displayed this degree of formalisation.

> *Medical Supplies: 'Speed and quality of service is one of our main competitive advantages...we need to know what the customer is thinking all the time...we also need to know what are competitors are trying to do.'*

> *Sandwich Ltd: 'We have introduced marketing specifically to maintain our competitive advantage. Without it we would probably not be in the position we are in today...it gives us all the information we need about our market and tells us what we are doing well and what things others are doing better than us.'*

Interestingly, the owner-managers from companies in the industrial services/construction classification did not discuss marketing to this degree of complexity. Instead, as in the case of their smaller counterparts these firms argued that marketing in their industry was more to do with building relationships and maintaining them through offering value for money. In addition, the owner-manager of Disaster Ltd also contended that marketing was not really a source of competitive advantage outside ensuring that they consistently met the needs of clients. This was perhaps unsurprising given that the purpose of Disaster Ltd was to assess the liability of insurance companies in the event of marine and other chemical related disasters.

In summary it can be concluded that marketing practices have played a central role in establishing and maintaining the competitive advantage of growth firms in this study. Whilst it was evident that considerable differences existed between firms, there seemed to be a general agreement that practices associated with understanding customers, building relationships and assessing environmental changes have all been instrumental in securing the success of these business. Formalisation of these practices was particularly evident in the larger firms in the study but it was also apparent that the smaller firms as they grew were increasingly employing certain marketing techniques to improve and sustain their competitive position.

Routinisation

In addition to building and maintaining relationships with customers as a means of sustaining competitive advantage, the interviews also highlighted that owner-managers looked towards management practices to routinise successful procedures. This has already been allude to in Section 8.2.2.2. In this section, quality assurance practices such as ISO 9000 and 14000 were cited by many firms as mechanisms by which procedures could be standardised throughout the organisation. The development of these organisational routines was also considered to have a significant impact upon maintaining competitive advantage. Routinisation was not common place in the smaller firms in the study but in several cases owner-managers reported that they were currently developing routines that could be applied across the organisation to help sustain their competitive edge. For example, the owner-manager of Training Ltd contended that:

'It is difficult to explain why our competitive advantage has been sustained because conceptually its easy...but it is difficult to get right...I am currently looking at how best I can standardise this experience so the firm continues to perform well...with the addition of new people it becoming more and more urgent to have procedures in place that allow them to acquire this knowledge quickly.'

This sentiment was also echoed by both the owner-managers of Office Ltd and Contractor Ltd who stated respectively:

'I am looking at ways that will allow [my son] to take over the business...I can't give him my experience but what I am doing is introducing procedures and systems that will provide him with the advantages my knowledge has given this business through the years.'

'At the start it was my experience, knowledge and past relationships that built the competitive advantage of this business...I have now taken a step back to concentrate on its future so I have had to introduce people and processes that will allow the firm to continually build and maintain relationships with our customers.'

In both cases, there was some recognition, that the skills and competencies originally displayed by the entrepreneur or owner-management team needed to be diffused throughout the organisation. In this sense, owner-managers were quick to point out that the development of routines, which sustain competitive advantage, was not necessarily a simple process. Within the interviews it was clear that the owner-managers knew that their unique knowledge and experience was key to this development process. This was illustrated by the comments of the owner-manager of Independent Ltd:

'I think new entrants [would take] a long time to build what we have...our success has come from our experience...sometimes I think our competitive advantage is quite simple and it is surprising how many competitors can't do what we do...we have made sure our staff know what contribution they are making and have design practices and systems that make sure they act in a particular way. I suppose you could argue that when it comes down to doing it, we must have achieved something that is quite difficult to copy.'

This comment was indicative of other statements provided by firms in all industrial classifications employing less than 50 people. Even in the family owned businesses of Garden Partnership, Pet Food Ltd and Hotel Partnership, all owner-managers seemed to agree with the general principle of taking their knowledge and experience and utilising it to establish routines that have enabled the competitive advantage of their businesses to be maintained. There was a myriad of systems and processes that were employed by these firms to achieve routinisation but generally they could be classified as being practices that achieved a particular outcome through a number of predetermined steps. For example, the owner-manager of Computer Ltd reported that:

> *'We now have a number of checklists and production steps that govern how a computer is built and how a customer should be serviced...When I first started I used to check our product and service quality all the time...As we have expanded it is becoming more and more difficult to do this personally...I didn't want our competitiveness to suffer...and the introduction of formal routines has certainly not hurt the business.'*

The interviews also illustrated that these procedures and management tools were more complex in the larger organisations involved in this study. The owner-manager of Disaster Ltd suggested that as the company had become more and more successful and its approach endorsed by its industry, methods had been found to absorb this information into the organisation. In other words, the owner-manager argued that the company's experience did not solely rest in its employees but also the culture of the organisation itself:

> *'In this market there are essentially two ways in which companies can compete...you can be lean and mean or you can add value to the process...this firm currently adds value...we have come to understand that when you are saving clients millions of pound, cost is the last thing on their mind...we have looked to build an investigational mind set and a culture that looks to solve clients problems in unusual ways.'*

The issue of routines and culture was also illustrated by the comments made by the owner-managers of Sandwich Ltd and Recruitment Ltd.

Sandwich Ltd: 'It has been important to develop processes that make full use of the expertise we have and build a culture that is oriented towards the customer.'

Recruitment Ltd: 'National companies have a very cold approach to business...we on the other hand our more adaptable to the needs of our customers. We have learnt as we have gone along...introducing practices such as record keeping and customer databases to help us maintain these relationships. Our reputation comes from our image and this image is from our customer philosophy and the culture we have built to try and maintain this vision.'

It is perhaps pertinent to note that the use of management practices to establish a culture that assisted the maintenance of existing competitive advantages was not restricted to the larger firms. Firms such as Pate Ltd, Independent Ltd, Media and HR Consulting all stated that they had introduced management practices and initiatives aimed specifically at creating the right culture to facilitate growth and sustain competitive advantage. In fact, the owner-manager of HR Consulting contended that:

'Offering a total solution is of paramount importance to our success and the standard of the work we do is our overriding advantage and is embedded in our staff. People may think that its easy...money for old rope...but building the right team is not easy. What people perceive and what is actual reality are two different things. Its so difficult...I'm not going to tell you how to do it because its different for every firm and individual but what I will say is that it is the management and development of many soft issues which need to be integrated and combined over time.'

Within the context of routinisation and standardisation, it was also evident that the growth firms identified in this study also viewed training as a significant factor in terms of maintaining existing competitive advantages. During the course of all interviews, owner-managers reported that they had introduced some form of training to improve the efficiency and skills base of existing and potential employees. The extent to which training was formalised in these organisations however, varied enormously. In the smaller companies, especially those in the industrial services/construction classification, training was usually very informal and linked directly to demand. In this sense, it was argued that on the job training and experience were considered to be a satisfactory method of improving the skills base of employees. Furthermore, this training was also linked to how busy the firm was in terms of market activity and hence, training was only carried out when time wasn't constrained. For example, the owner-manager of Engineer Ltd stated that:

> *'We look at on the job training as a way to improve the abilities of our staff...but time seems to be always against us and we are often too busy to carry our training objectives through.'*

On the job training was also evident in a number of smaller firms in both the services and manufacturing industrial classification. The owner-managers from Media, Timber Ltd, Consultancy Ltd and Accounts Ltd all reported that they had regularly undertaken on the job training to improve the skills of their staff. In addition, owner-managers from all three family oriented firms implied that they also subscribed to the principles of on the job training as a means of improving staff competencies. On the job training in these firms was usually conducted by a member of the owner-management team rather than designated personnel. In contrast, for two manufacturing firms Pate Ltd and Pump Ltd, the owner-managers commented that there was no longer a need for them to undertake the training role as experienced staff often took on the responsibility themselves.

> *Pump Ltd: 'Staff are under no illusions and if they know they lack certain skills they either ask other members of staff to help them or are told by team members that they need to improve.'*

> *Pate Ltd: 'Staff train staff on all aspects of the business...there is no need for me to get involved and in many cases I know less than my staff do on certain parts of the business.'*

In these cases, both owner-managers reported that they had cultures that encouraged team improvement. Furthermore, the owner-manager of Pump Ltd also submitted that staff often seemed to set higher standards than he expected and was usually surprised at how quickly new members of staff were 'up-skilled' by existing employees.

The owner-manager of Computer Ltd reported that he had introduced an apprenticeship scheme for new employees. This scheme was aimed at introducing staff to all aspects of the business and to fully understand how their activities impacted upon the overall success of the business. The rationale behind this human resource practice was a strong belief in the apprentice system and past evidence suggested that it had helped staff to contribute to his firm's ability to provide a quality product and service:

> *'I have always believed in the apprentice system and feel that it is undervalued in today's workplace...I have had great success and I can honestly say that it has helped this business to grow.'*

The owner-managers from companies such as Independent Ltd and Training Ltd also argued that the nature of their businesses had led them to incorporate training practices. In the case of Training Ltd, the owner-manager stated that he couldn't really run a computer training company without making sure that his staff had the ability to deliver a quality product. Conversely, the owner-manager of Independent Ltd submitted that changes in the financial services market had meant that there was more emphasis on quality advice and he had responded to this change by introducing in-house training. In both cases, the owner-managers of these two firms maintained that training led to consistency, which in turn helped strengthen the existing advantages they currently enjoyed in their respective marketplaces.

Owner-managers from some of the larger firms in this study reported that formal training had also been important in maintaining their existing competitive advantage. Interestingly, the owner-managers from Food Ltd, Plastics Ltd and Sandwich Ltd all submitted that training was still informal and the responsibility of each departmental manager. In this sense, they argued that whilst they acknowledged the role training played in maintaining their competitive advantage, no effort had been made to formalise the process. Instead they suggested that they had opted to employ competent managers that could address the specific training needs of each department. The comments made by Food Ltd offered some insight into this strategy:

> *'We have replaced our HR department and moved employee issues such as training and welfare to become the responsibility of senior management. In the past, employee problems*

> *tended to be passed on rather than resolved by the* HR *department...We have given the accountability to senior managers and made it their responsibility to train our employees.'*

This statement suggested that whilst efforts had been made to introduce formalised human resource management practices, the company quickly realised that its main objective. Despite the removal of this practice, the owner-manager did report that the company had continued to utilise human resource management to provide formalised training but the responsibility as to what employees needed assistance and 'up-skilling' had become the decision of department heads and senior management.

In contrast, Finance Ltd, Medical Supplies and Recruitment Ltd all stated that they had developed training programmes to continually update the skills of the workforce and provide new recruits with the necessary skills to make a contribution to the business. The owner-manager of Recruitment Ltd contended that:

> *'We have implemented training, coaching and personal development programmes...aimed at up-skilling our current workforce.'*

Similarly, the owner-manager of Finance Ltd reported that:

> *'We have a comprehensive learning and training strategy, ensuring our staff are capable of making a contribution to our long term future.'*

These comments were indicative of the comments made by large firms on the importance of training to the maintenance of their strategic position in their respective marketplaces. In general, the issue of routinisation, in this study, seemed to be a management practice employed by the majority of firms employing more than 20 people. Some smaller firms did allude to the fact that there was a need to standardise work practices and that attempts were being made to formalise certain routines. The intricacy surrounding the systems and processes used to develop these routines however, was linked to the complexity and size of the organisation. Furthermore, whereas some firms simply employed checklists and work routines to ensure that processes perceived to be of strategic value would be sustained, others had implemented more complex systems to sustain these advantages. The interviews also illustrated that this routinisation, which was often as a result of historical development and the idiosyncrasies associated with owner-manager knowledge and competence, had led to the development of organisational cultures that seemed to further maintain competitive advantage. In this sense, it was evident that practices such as informal or formal training, the implementation of control systems and quality assurance mechanisms were used by growth firms to sustain existing advantages.

Protection of Patents and Intellectual Property Rights

In three cases, management practices aimed at protecting the design and copyrights of innovative products were cited as being significant to maintaining competitive advantage. These practices were not common place amongst the sample and were only alluded to be the owner-managers of three of the four firms that reported that their competitive advantage was also based on innovation and creativity. In these cases it was evident that the firms did not consider particular competencies such as product or service quality to be the primary source of competitiveness. Instead they argued that their advantage lay in their ability to bring innovative products to bear on their respective markets. For example, the owner-manager of Plastics Ltd stated that:

> *'Our competitive advantage is innovation and creativity...we have found that to protect this advantage intellectual property rights and patents are only as good as our ability to police and maintain them.'*

In this sense, they all argued that whilst potential competitors undoubtedly faced barriers to entry, sustained advantage was very difficult to achieve because over time competitors tried to use 'legal loopholes' to effectively imitate their innovations. Consequently, efforts to maintain service quality and build a culture that was conducive to innovation had also led the three companies to establish comprehensive legal practices to help sustain the nature of the innovation. The owner-managers from all three companies argued that they had been forced to develop certain practices that ascertained whether patents or intellectual property rights had been violated and contained systems and procedures that would enable the firm to reinforce them. The owner-managers from Laser Ltd and Rig Ltd both commented that their ability to protect patents was a considerable source of competitive advantage:

> *Laser Ltd: 'We have had to introduce legal skills to maintain the advantages that our innovation provide us with.'*

> *Rig Ltd: 'We have ensured that on all our designs we hold a long term patent. These patents however, need to be policed as competitors are always looking to find ways to abuse them.'*

In addition to protecting patents and intellectual property rights, all three owner-managers stressed the importance of having procedures that assessed the feasibility of their innovations. These competencies were similar to the marketing techniques discussed by other firms in the study with one notable exception. Due to the innovative nature of their products the owner-managers also submitted that they had also need to build marketing practices that would provide them with the necessary information as to the best way of introducing their products to market. This was illustrated by a statement made by the owner-manager of Laser Ltd:

> *'We have greater levels of technical expertise than our competitors allowing us to achieve high levels of innovation and quality...to complement this we have also established marketing expertise that allow us to try and set the rules for our industry rather than simply follow others.'*

It was therefore surmised that whilst the protection of patents and intellectual property rights was only shared by three firms in this study, these firms also had to look towards more traditional marketing techniques as a means of sustaining their initial advantages.

8.2.3.2 Improving Competitive Advantages

Practices geared to improving competitive advantage were more difficult to identify from the interviews conducted with owner-managers of growth oriented firms in Wales. Whilst it was evident that the majority of owner-managers had introduced practices to either manage the growth of the firm or to sustain existing advantages, there was little evidence that practices had been implemented as a means of expanding the existing capabilities of the firms. Notwithstanding this fact, the interviews did provide evidence that growth firms involved in the study did utilise two methods to establish new competitive advantages. Firstly, following on from the process of building on existing strengths through standardisation, some owner-managers reported that they had tried to build an adaptive organisation with a culture that was responsive to change and new opportunities. Secondly, owner-managers contended that the introduction of new layers of management and expertise had also augmented the existing knowledge base of the firm. In this sense, they argued that the recruitment or development of particular skills expanded the capability of management in their firm to look at ways of exploiting new opportunities for growth.

<u>Building an Adaptive Organisation</u>

Establishing a good culture was important to a number of firms, not only as a mechanism by which existing values could be diffused throughout the firm but also as a means of building an adaptive organisation. This issue was closely related to the introduction of culture by the firms in this study to assist standardisation or the routinisation of key tasks. The owner-manager of HR Consulting argued that in an effort to establish the right culture he had tried to introduce the philosophy of a learning organisation to help the business absorb new opportunities:

> *'I have tried to create a learning organisation and build an adaptive workforce that has the right attitude towards change.'*

Others such as the owner-managers from Pump Ltd and Office Ltd echoed the sentiments of the majority of firms on the issue of culture and its importance to growth. Both these owner-managers stated that the right people and the right attitude were imperative in maintaining and improving the competitiveness of their firms:

> *Pump Ltd: 'We have a wide range of skills and when new challenges come along we prefer to say yes we can solve your problem rather than turn new business away...its all about being prepared to take thins on, have a can do attitude...attitude is so important.'*

> *Office Ltd: 'We've got good staff who do a lot of good work for this business...they are also the key to our future success.'*

The founder of Pate Ltd contended that her belief in empowerment had led to building a self-directed team in which all employees understood all elements of the production process. This unique organisation structure described in Section 8.2.2.2 facilitated continuous improvement and assisted the top management team in the formalisation of new practices that could strengthen the firm's existing advantage of product quality. Moreover, this improvement had also led to the introduction of new work practices that had extended the production capabilities of the firm and created the opportunity to build upon existing competitive advantages:

> *'Sometimes we have good ideas that we pick up from customers and suppliers but by the time we get around to thinking about implementing them...we have found that our team has already implemented the practice or improved upon it.'*

The concept of continuous process improvement was uncommon amongst firms in the study. Furthermore, it seemed to be restricted to firms in the manufacturing classification. A number of firms in this classification suggested that they were always looking at ways to improve their product or production process but only one owner-manager explicitly stated that they had introduced any formalised structure of management process to facilitate continuous improvement. The owner-manager, from Plastics Ltd reported that he and his partner had introduced quality circles throughout the organisation to look at key processes. He argued that it did not conform to the traditional quality circle practices associated with Japanese companies. Instead, he submitted that the utilisation of quality circles was to assess the effectiveness of all processes from production to marketing and aimed to look at ways in which the companies existing competitive advantages could be enhanced:

> *'We have introduced quality circles...not in a Japanese way...but to improve all areas of the business efficiency and create slack for people to consider how we can improve the future of this company.'*

Owner-managers from firms in the industrial services/construction classification did not raise the importance of an adaptive culture and continuous improvement. Nonetheless, evidence from the interviews also suggested that people were important to maintaining success. This acknowledgement however, seemed to be more implied with comments such as:

> *Insulation Ltd: 'We give [customers] good service...the same people come back to us so we must be doing something right...we have a good reputation...and we have good people working for us.'*

> *Rig Ltd: 'Our staff are so important...without them we wouldn't be half as good.'*

These statements are indicative of the views expressed by firms in the industrial services/construction classification of this study. Despite the lack of any direct statements to culture, it was apparent that the value of people in terms of improving competitiveness was not undervalued in this sector. Nevertheless, no owner-manager of this classification discussed the utilisation of culture or any other management practice as a mechanism that could improve organisational competitiveness and the statements above only imply that the process of building culture is significant in this industry.

<u>Improving Management Capability</u>

In Section 8.2.2.3 one of the most notable reasons behind the implementation of management practices identified during the semi-structured interviews was the importance of introducing new layers of management as firm evolved. It was previously argued that smaller firms were more likely to have only developed management in one or two key areas whereas the larger firms in the study possessed more complex organisational designs.

Within the discussion of Section 8.2.2.3 some owner-managers contended that their decision to introduce new layers of management was directly related to their desire to grow the business. This was a view shared by a number of owner-managers in all firm size and industrial sector classifications. Whilst some owner-managers stated that new layers of management had been introduced to manage the evolution of the firm, others reported that new management layers had been implemented to specifically improve competitive advantage. The owner-manager of Laser Ltd stated that:

> *'We have created a marketing role for new non-executive director...we have introduced this expertise to help us improve our existing abilities.'*

When questioned further this owner-manger reported that the introduction of new management had enabled the firm to consider a wider range of opportunities whilst building on its existing strengths. Whilst the issue of managerial slack was not raised by the majority of firms there was common agreement between owner-managers of firms of all size and industrial classifications that new management had led to more time to consider the future of the business. For example, the owner-manager of Recruitment Ltd stated that:

> *'The management I have introduced means that each part of the business is managed more efficiently. What this means...is that I now simply have more time to look at where we are going.'*

Owner-managers reported in Section 8.2.2.3 that they had introduced new management layers to improve the knowledge base of the firm and to create more time for themselves and other members of the top management team to concentrate on creating sources of potential competitive advantage. Moreover, the introduction of management practices geared to routinisation and standardisation such as systems and training also provides owner-management with increased time in which to consider the future of their businesses. It can therefore be concluded that increased management capability may be a source of sustained competitive advantage for the firms involved in this research. In other words, it is argued that if the reasons behind the introduction of new layers of management discussed in Section 8.2.2.3 in relation to the effective management of firm growth and evolution could conceivably augment existing competitive advantages. Thus, it is submitted that these practices have indirectly created the necessary management slack for growth oriented firms to entertain future growth and build upon existing competencies.

8.2.4 Management Practices and their Influence upon Decision-Making

In previous Sections data collected highlighted that management practices had been introduced by the firms in the study for a wide range of reasons. Section 8.2.3 and its corresponding subsections submits that these reasons can be divided into three categories – the introduction of management based on previous experience, the implementation of management practices to manage the process of growth and establishing new management layers to assist firm development and evolution. All these practices and layers of management arguably affect subsequent decision-making in the firms involved in this study. The influence of these practices upon decision-making however, can be categorised as affecting either operational or strategic decision-making. Thus, the impact of some management processes do not extend past governing the various activities of the firm whilst other processes were viewed as being integral to the strategic decision-making process by owner-managers who participated in this research.

8.2.4.1 Management Practices and Operational Decision-Making

During the interviews it was evident that firms from all size and industrial classifications had introduced management practices to co-ordinate operational activities. The owner-managers from firms employing less than 50 people argued that the introduction of new layers of management and operational controls were necessary to manage the growth of their businesses. The use of operational management practices was more apparent in the industrial services/construction classification with owner-managers from Engineers Ltd, Rig Ltd and Contractors Ltd all stating that they had implemented a range of administrative controls to co-ordinate their existing activities. These practices ranged from the use of simply checklists to the utilisation of standards such as ISO 9000 to ensure their businesses ran efficiently. A similar observations was made in respect to smaller firms from the service and manufacturing sectors. The owner-mangers from Accounts Ltd and Consultancy Ltd commented respectively that:

> *'There has been a streamlining of management and now most of the tasks delegated to other management levels concerns the running of the business.'*

> *'Lower level tasks have been delegated due to time and we have made a conscious effort to spread the workload.'*

In both cases, the owner-managers implied that they had found it difficult to delegate authority but had been forced to do so due to the increased workload business success had generated. In fact, the owner-manager of Consultancy Ltd added:

> *'It is difficult to let others make mistakes but we have to let them...they need to gain experience...its still hard to go back afterwards and not say told you so.'*

This unwillingness to delegate tasks was also alluded to by the owner-managers of the three family owned firms involved in this study. Both individuals submitted that they had only delegated lower level tasks to administrative managers as a means of spreading an increasing workload. Furthermore, the owner-manager of Hotel Partnership stated that in all cases where he had been forced to delegate, the owner-management team had predetermined the boundaries of these tasks:

> *'They follow the guidelines I have set.'*

This owner-manager went on to say that he had recently recruited a general manager to act as a personal assistant to the owner-management team. Whilst in conversation it became evident that this manager had substantial expertise gained at a larger hotel, an unwillingness to release control on the part of the owner-management provided that these skills remained essentially dormant. Thus, the management practices introduced by these owner-managers could be classified as being purely for the purposes of business maintenance.

Management practices aimed at maintaining the activities of the business were also observed in other firms of varying sizes and operating across the three industrial classifications. In general, the owner-managers from firms that could be categorised as industrial services or construction emphasised that the management practices they had implemented had been driven by the owner-management team in order to maintain certain functional areas of the business. In addition, the owner-managers from larger service and manufacturing oriented business, employing more than 20 people, also suggested that management practices that had been introduced to manage operational issues did not exert any influence upon strategic decision-making. Nevertheless, owner-managers from all three industrial classification contended that once they had introduced functional management layers or practices they were committed to it and would seldom override any operational decisions made. For example the owner-manager of Independent Ltd commented that:

> *'I try not to override any authority I have delegated...once I have decided to put a new layer of management in place I trust in it.'*

The owner-manager of Pate Ltd argued that in setting up the management practices in her firm she had quickly realised that letting people get on with operational issues had paid great dividends in terms of an increased amount of time away from the business to consider new projects and think about the future of her existing business:

> *'I still decide where the business is going but I no longer have to worry whether the business will operate when I'm away...I now can take holidays and take time out to enjoy success and consider the business' future.'*

This was a commonly shared view amongst owner-managers who participated in the research. In this sense, all owner-managers agreed that regardless of the functional nature of the management practice or process, there was a need for personal discipline to not get involved in any operational issues associated with it. Thus, there seemed to be a general consensus that operational management practices had been introduced to lessen workloads and the operational problems faced by owner-managers in growth firms. This was further illustrated by the owner-manager of Disaster Ltd who reported that:

> *'Overall I have come along and done the business and acted in what some might say is an entrepreneurial way...I have then put things in place to sweep up after ourselves, to tighten things up...and give us mechanisms that assess performance. I suppose you could say that we are responsive at the front end...[with] back-up systems to ensure we do things profitably and in a formalised manner.'*

It is therefore reasonable to surmise that the impact of practices, previously identified in Sections 8.2.2.1, 8.2.2.2, 8.2.2.3, was linked to operational tasks that assist businesses to perform their activities effectively. It was also evident during the interviews that the owner-managers of these growth firms not only determined what management practices were implemented but the value of these processes to strategic decision-making. In smaller firms, it was observed that owner-managers acted as the driving force behind the introduction of these operational management techniques. In larger firms, where there had been some addition to the decision-making process in terms of new layers of management or processes, these decisions continued to be driven by the owner-manager but were combined with the knowledge these new individuals or practices provided.

8.2.4.2 Management Practices and Strategic Decision-Making

In contrast to management practices introduced simply to improve the operational effectiveness of the organisation and reduce the workload of the entrepreneur or owner-management team, owner-managers of growth firms also acknowledge that certain management practices had undoubtedly affected the strategic decision-making of their firms. Interestingly, all owner-managers, with the exception of the three owner-managers from family owned firms, suggested that they had introduced management practices that had subsequently impacted upon the strategic direction of the firm. The most notable way in which management processes exerted an influence upon these firms was in relation to providing the information that formed the basis for strategic decision-making. The degree to which practices such as financial management, quality control and management information systems had been formalised in the firms involved in this study varied considerably. As previously stated in Sections 8.2.2.2 and 8.2.2.3, firm size generally determined the formality of these processes. Nevertheless, owner-managers of firms that employed less than 20 people still recognised the effect of these management practices on their decision-making. For example the owner-manager of Media reported that:

> *'Decision-making is more consensual...its no longer lonely and more of a team effort...there is more information and knowledge around the table...having said that decisions do take longer and debates in the past have verged on the ridiculous.'*

This statement implied that whilst the owner-manager accepted the fact that decision-making was more informed, this process was often lengthened unnecessarily by the existence of too much information and too many viewpoints. In these circumstances owner-managers were quick to point out that their power could be used to override the decision-making process. Despite this ability to override the processes they had introduced, as with operational measures owner-managers submitted that they were not inclined to do so, because they felt it undermined the rationale behind why a new layer of management or practice had been implemented in the first place. For example, the owner-manager of Phone Ltd contended that:

> *'As we have grown we have accepted that we have had to put management levels in…these systems have been introduced to ensure that information is available to us to make better decisions.'*

Further evidence that management practices contributed to the decision-making process was also evident in a number of other firms. The owner-manager of Office Ltd submitted that:

> *'The practices we have implemented means that we can make decisions based on better information.'*

In fact, the majority of owner-managers from firms in the three size and industrial classification all tended to agree that the introduction of new management expertise and management practices related to finance, planning and control all exerted an increased influence upon decision-making. In addition, the owner-managers of firms in the service and manufacturing industries also reported that management practices such as human resource management policies and marketing also affected decision-making. In this sense, owner-managers from Independent ltd, Accounts Ltd, Training Ltd and Laser Ltd all reported that some of the practices and expertise they had introduced to maintain their competitive advantage in their respective marketplaces had subsequently influenced the strategic direction of their businesses. This was illustrated by the comments made by the owner-manager of Independent Ltd who stated that:

> *'As the founder charged with growing the business I tend to initially drive the adoption of certain management techniques…there is a noticeable lag behind our development but [our practices] highlight these weaknesses and we continually strive to update our technological and skills base to minimise any adverse effect.'*

Within the context of this statement it was implied that whilst the decision to introduce new practices rested firmly with the owner-manager the practices introduced often identified potential weaknesses that the owner-manager had to subsequently respond to in order to maintain the competitive position of his firm. Furthermore, this comment also suggested that management evolution drove further development although it was important to acknowledge the importance of the owner-manager in driving this process. The significance of changes in management structure and processes in the growth firms that participated in this study was also highlighted by the comments made by the owner-managers from Design Ltd and Pate Ltd.

> *Design Ltd: 'The introduction of new management practices have complemented the decision-making process and helped build upon our existing strengths.'*

> *Pate Ltd: 'Although I still drive the firm I act upon advice given to me by my senior management team and the self directed teams that run the business side of things.'*

In one firm, HR Consulting, the owner-manager reported that all staff contributed to the decision-making process and that firm strategy was built on the philosophy that people were the most critical success factor in any business. Similarly, the owner-manager of Pump Ltd commented that staff were much more involved in the decision-making process and open communication had significantly improved both decision-making and the implementation of strategy. Furthermore, in the case of Training Ltd, the owner-manager submitted that the addition of management to the existing structure of the firm had been specifically undertaken to improve systems, controls and processes. These practices, he argued were now assisting strategic decision-making. He also stated that whilst he had determined the nature of the management positions and the practices to co-ordinate the business, the fact that his management team were closer to the front end of the business meant that all decision-making was based on the information that these individuals and related processes provided. Thus, it was evident that this owner-manager had established a management team and complementary processes to deliver his competitive vision and at the same time deliver information about the effectiveness of this vision in terms of performance to facilitate improvement. This sentiment was echoed by the owner-manager of Laser Ltd who argued that:

'I have introduced marketing expertise to assist the evaluation of markets and develop branding…other things like budgets, controls and management reporting aid strategic decision-making and allow [the owner-management team] to make better decisions, measure risk and concentrate on this process without getting involved in the operational side of the business.'

In the larger firms in the study, the influence of management practices was more prominent. In particular, evidence provided by the owner-manager of Finance Ltd seemed to support the premise that growth firms utilised management practices and added new layers of management to improve performance. In this case, the owner-manager made several references to how the firm had only come to really understand its business in the last few years and that it had been frustrated by existing systems that had simply preserved the best of the past. In this sense, he stated that the firm had recently been through an extensive review of its systems and management practices. This review had highlighted that some of the management practices implemented in the past were of little use to decision-making or maintaining competitive advantage:

'I found that some practices added little to the business and were simply stopping the flow of important information into the decision-making process.'

This owner-manager went on to say that:

'These practices slowed decision-making down because the information didn't flow through the correct channels into board meetings…in the past we have put systems in place that maintained what the board wanted without really considering what is needed to make tough business decisions…[as a result] we have spent a lot of time realigning these processes to make sure we remain responsive and innovative…its taken four years to understand the process and the ways it can be implemented effectively.'

The owner-manager of Finance Ltd concluded that the firm was governed by its mission and objectives and each department was accountable for providing information for the decision-making process. In addition, he suggested that whilst decision-making had become more cumbersome, the performance of the firm stood as a testament to the improved quality of the decision-making process.

The impact of management practices was also apparent in Plastics Ltd, Sandwich Ltd, Recruitment Ltd, Medical Supplies and Food Ltd. In each of these cases the owner-managers reported that management practices and new layers of management had influenced the decision-making of their respective firms. In all cases, the owner-managers also suggested that these practices had improved their decision-making and subsequent performance. For example, the owner-manager of Sandwich Ltd commented that:

> *'The management practices we have implemented allowed to reach a point where we can look at introducing new practices to help us grow further.'*

This was supported by the owner-manager of Recruitment Ltd who stated that:

> *'Formalisation and the range of management tools we have developed or introduced have improved decision-making despite drawing the process out a bit more...key management have supported our growth and helped to realised opportunities that were initially outside our reach.'*

In contrast to the comments made by the owner-managers of firms, employing more than 50 people, in the service and manufacturing industries, the owner-managers of the larger industrial services/construction firms argued that the implementation of management practices only impacted on decision-making in terms of information and data provision. Moreover, like their smaller counterparts, they were less convinced of the benefits of involving others in the decision-making process, maintaining that they felt they had reached a level whereby they could make better decisions based upon the information provided by operational systems. As noted earlier in Section 8.2.2.3, the owner-manager of Crane Ltd again cited the dangers of involving too many individuals in the decision-making process and re-iterated in no uncertain terms what he thought of committee based decision-making. This view was supported by the owner-manager of Electrical Ltd who contended that:

'The information systems let us know what's going on and we make decisions based upon them…What these practices were came down to what me and my partner wanted to know about the business.'

Thus, whilst there was some recognition that management had some effect on decision-making, both owner-managers argued that the management layers and practices introduced essentially provided them with the information they were too busy to collect themselves.

Overall, it was evident that the management practices and new layers of management introduced by the growth firms in this study did exert an influence upon strategic decision-making. With the exception of the three family owned businesses and to some extent the businesses categorised as operating in either the industrial services or construction industry, all owner-managers contended that the management practices introduced had improved the quality of decision-making and contributed to the subsequent success of their firms. Furthermore, it is reasonable to conclude that, within the context of this research, growth firms were aware of the advantages management practices and key personnel offered their firms in terms of long term survival and growth.

8.3 Conclusion

The quantitative data displayed in Sections 8.1.1 and 8.1.2 illustrate that there was a significant amount of heterogeneity between firms involved in this study. Despite this diversity it was apparent that irrespective of these differences a number of themes emerged from the qualitative data concerning the adoption of management practices by growth firms in Wales.

The interviews supported the proposition that certain personality characteristics and background influences have a considerable influence upon strategic decision-making and the adoption of management practices. The need to achieve and the attitude towards risk were dominant personality characteristics cited by owner-managers with all participants regardless of firm size or industrial classification reporting that these factors were at the centre of strategic decision-making. Moreover, age and previous industrial experience were also considered by owner-managers to be key determinants of strategy and firm development. In this sense, many owner-managers argued that their willingness to pursue growth aspirations and take calculated risks were tempered by their age and what they had achieved in the past. In all cases, owner-managers submitted that their previous experiences and competencies exerted a significant influence upon decision-making and in many cases had determined firm development and evolution. In cases where a firm was owned by more than one individual, owner-managers reported that group dynamics and the relative power of the principal shareholders also had a significant impact upon the strategic direction and scope of a firm.

In addition to personal attributes and background factors identified during the semi-structured interviews, owner-managers contended that there were also a number of internal and external environmental factors that influenced decision-making and the development. Owner-managers of firms in all size and industrial classifications regularly alluded to the impact of external factors such as market fluctuations, competitor action and the availability of skills and finance upon decision-making. Likewise, internal factors relating to the availability of resources and the perceived skills of their workforce were commonly cited by owner-managers as factors that continually shaped firm development and evolution.

When reasons behind the adoption of certain management practices were examined it was evident that the industrial experience of the entrepreneur or owner-management team had exerted a considerable influence upon what practices had initially been adopted by growth firms in this study. Given that in all cases, firms were operating in industries in which at least one of their owner-management team had prior knowledge of, the rationale behind the adoption and importance of certain management practices varied between firms of different industrial classifications. For example, owner-managers who operated firms in the industrial services/construction sector argued that the nature of their industry had led them to introduce practices that enabled relationships to be maintained with clients and suppliers. In contrast, owner-managers from large firm backgrounds reported that they had attempted to implement management practices such as objective setting, marketing plans and budgets to their ventures based upon past management experience in these large organisations. Other participants felt that their vision of their industry was a key determinant of how their firm developed and they had based management development upon their personal perceptions of how a firm could compete effectively in their marketplace.

Owner-managers also contended that the adoption of management practices such as planning and control techniques and financial management had been introduced to manage the growth process. In terms of planning and control a number of management practices ranging from ISO 9000 to management information systems were considered to be instrumental to firm growth. It was apparent during the interviews that the extent of planning and control was loosely related to firm size. Thus, the majority of larger firms, employing more than 50 people were more likely to have formalised systems of control and planning. In addition to practices that were implemented to manage growth, a number of management practices, most notably the introduction of new personnel, were cited by owner-managers as measures to secure firm development and evolution. In this sense, the majority of owner-managers reported that they had either implemented new layers of management or were currently contemplating such action in order to re-organise the business to allow it to evolve and achieve further growth. There were however, a few exceptions to this general observation. In the case of family owned business there seemed to be a reluctance to release control and generally all three of these owner-managers submitted that they had little confidence in existing staff to take the business forward. Moreover, in a few of the larger firms, owner-managers submitted that they had made a decision not to involve too many people in the decision-making and felt devolving operational authority was a sufficient measure to facilitate firm development and evolution.

The owner-managers involved in this study maintained that management techniques such as marketing, routinisation and the protection of intellectual property rights and patents contributed to their competitive success. Marketing was considered to be fundamental to sustaining relationships with customers. Whilst owner-managers of firms in the industrial services/construction classification reported that they had little need of formalised marketing techniques, owner-managers from service oriented and manufacturing firms all contended that marketing was becoming increasingly important to sustaining competitive advantage. The degree of sophistication however, varied across firms.

Owner-managers participating in the semi-structured stage of this research also cited routinisation as an important factor in securing competitive advantage. The majority of owner-managers stated that they had put in place mechanisms that formalised their vision, knowledge and competencies. Furthermore, owner-managers across all size and industrial classifications argued that key success factors, once identified, were refined and organised into operational routines to ensure consistency and quality. It was observed however, that larger firms in the study had established more complex organisational routines. Training was also considered to be instrumental to sustaining competitive advantage and the majority of owner-managers alluded to the fact that their staff were currently involved in some form of training. In addition, the protection on patents and intellectual property rights was considered by three innovative firms in the study to be important to maintaining competitiveness. In these cases, owner-managers argued that whilst innovation had given them an initial advantage, the value of this advantage could only be sustained if they could successfully enforce the protection that associated patents and intellectual property rights afforded their respective companies.

Management practices that had been implemented to enhance the competitive position of the growth firms in this study were less evident. In general, a few owner-managers suggested that their ability to recruit key personnel and build an adaptive and responsive culture were sources of competitive advantage. In this sense, they argued that people and their combined skills, knowledge and competencies were vital for long term success. Most notably, owner-managers in the industrial services/construction classification did not cite any management practices that could be perceived as augmenting their existing competitive positions although statements collected did imply that the ability of others was a key determinant of success.

Finally, evidence from the interviews conducted with owner-managers of growth firms in Wales revealed that management practices had two potential influence upon strategic decision-making. Firstly, management practices such as ISO 9000 and other functional systems or tasks had increased the efficiency of the organisation. Thus, whilst the owner-manager or entrepreneurial team had been involved in the operational and strategic aspects of firm development at the outset, growth had prompted them to delegate functional tasks to improve efficiency. This, in turn, enabled a number of owner-managers to create more time to consider the future of their businesses. Similarly, this process also helped owner-managers to improve the quality of the strategic decision-making process. This was further assisted by the introduction of new layers of management expertise, management information systems and the development of adaptive and responsive organisational culture that facilitated and encouraged subsequent growth.

Chapter 9

Analysis & Interpretation

Chapter 9: Analysis and Interpretation

This Chapter analyses the results of the preliminary study and semi-structured interviews. It was discovered that the concepts of the entrepreneurial and management filter developed by this thesis[1] provide a suitable framework for understanding how and why growth firms adopt management practices. The analysis of the data collected and draws upon the observations made in relation to existing knowledge discussed in Chapters two, three and four. In all cases the extent to which the results confirm or refute the existing literature and the subsequent conceptual framework proposed by this thesis are discussed. Evidence from the study seemed to corroborate that management development is driven and constrained by the experience and aspirations of the entrepreneur or owner-management team. Furthermore, practices such as planning, financial reporting, marketing and routinisation not only formalised the management of the firm but were also sources of competitive advantage. In this sense, this thesis argues that growth firms implement management practices to maintain advantages that have been derived from past experience, knowledge and processes. In addition, the introduction of new management expertise is viewed by growth oriented owner-managers as a means of widening the dynamic capabilities of their firm. Finally, the research also acknowledges that the management practices introduced by growth firms have an increasing influence upon operational and strategic decision-making, promoting more rational modes of strategic formulation.

9.1 The Entrepreneurial Filter and Strategic Decision-Making

In understanding how and why growth firms adopt management practices, it has been necessary to examine influences upon the decision-making process. Throughout this thesis it has been argued that the internal capabilities of the firm are key elements of growth. In this sense, it is maintained that certain personality traits, motivations and background factors of the entrepreneur determine the strategic direction and development of a firm. Given that these characteristics are essentially mediated by motivation and moderated by ability, research has yet to adequately directly associate certain personal attributes to firm performance and development. Thus, whilst it is reasonable to conclude that a causal relationship exists between the characteristics of the entrepreneur or owner-management team and firm development, the absence of any direct association ensures that personality traits viewed in isolation are insufficient

[1] Note: See Chapter 5.

predictors of growth. This thesis however, submits that certain characteristics and background influences combined with a range of internal and external factors determine firm development through an entrepreneurial filter. The initial research question proposed in Chapter five therefore, attempted to discover how personality and background characteristics shaped strategic decision-making and management development. Evidence from the study suggests that decision-making, organisational and management development was driven by an idiosyncratic entrepreneurial filter. Moreover, it was apparent that participants felt that this filter essentially consisted of several key components. These components related to the personal attributes, age, experience and competencies of the entrepreneur or owner-management team and also the variance of skills, experience and relative power that existed amongst owner-management teams. In addition, owner-managers of growth firms involved in the study felt that a range of external and internal environmental factors also influenced decision-making.

9.1.1 Personal Attributes

It was apparent from the semi-structured interviews that a wide range of personality characteristics influenced decision-making. Evidence from the study however, suggested that owner-managers considered the need to achieve, a need for an internal locus of control and ever changing attitudes towards risk and opportunity, as personality traits that primarily shaped the strategic direction and scope of their firms. These observations seem to support previous literature as to the importance of certain personality traits to the growth process.

Previous commentators have consistently cited a high need for achievement to be conducive to firm survival and growth (McCelland 1961; Begley and Boyd 1987; d'Amboise and Muldowney 1988; O'Farrell and Hichens 1988; Kotey and Meredith 1997). Furthermore, it is argued that the need to achieve provides the entrepreneur with the energy and motivation to succeed. Owner-managers involved in the study were quick to acknowledge, irrespective of firm size or industrial classification, that their decision to start and grow a business was driven by a high achievement motivation. The interviews also revealed that in the majority of cases the owner-manager or entrepreneurial team utilised this achievement motivation to drive the business forward and implement strategies and processes that were in line with their visions and objectives.

This discovery confirms the arguments put forward by Timmons (1985), Begley and Boyd (1987) and Penrose (1995) who contend that growth oriented entrepreneurs are always striving to meet and surpass challenging objectives. Notwithstanding this endorsement, it is perhaps pertinent to note that unlike Begley and Boyd (1987) who maintained that the need to achieve was only important in the early stages of firm development, this research cannot make a similar distinction. In fact, evidence collected from semi-structured interviews generally implied that irrespective of firm size or age, owner-managers reported that their motivation to succeed had not rescinded once they had established a successful enterprise. In some cases, most notably in the case of the family owned firms, it was observed, that the need to achieve was linked more to making sure that the business continued to survive and support a certain standard of living. Moreover, in the preliminary study there seemed to be some division between owner-managers who were looking to pursue further growth and those looking to consolidate. Owner-managers who stated that they were hoping to pursue further growth tended to look towards the introduction of management as a means of facilitating the growth process. Conversely, owner-managers who reported that they were currently seeking consolidation, implied that they had little inclination towards further management development. This observation seems to support the proposition that some owner-managers, once they have reached a certain level of success, are content to disengage from the growth process and enjoy the rewards of their past endeavours (Stanworth and Curran 1976; Churchill and Lewis 1983; O'Farrell and Hitchens 1988). Furthermore, it can be argued that these businesses can be defined as lifestyle businesses (Burns and Harrison 1996) in which the desire to grow is simply a precursor to achieving a pre-determined level of income and intrinsic reward. This behaviour was particularly evident in the family owned businesses or those firms in which owner-managers stated that they were close to retirement.

Closely related to the need to achieve was a belief by many owner-managers that they were ultimately responsible for the success of their business. In this sense, it is maintained that the existence of an internal locus of control is often consistent with a high achievement motivation (Rotter and Hochreich 1976). Some owner-managers argued they had always considered that they were, to all intents and purposes, the 'master of their own destinies' while others reported that past success had changed their perceptions of how much influence they could exert upon firm success. The entrepreneurship literature submits that individuals with a high internal locus of control are inclined to think that the efficacy of personal judgements determines firm performance and not the existence of luck or fate (Brockhaus 1982; Begley and Boyd 1987). Nonetheless some owner-managers, regardless of their belief that firm success was primarily due to their efforts, were unwilling to discount the fact that luck did not contribute to overall success. This observation further supports the proposition that whilst entrepreneurial perception may shape the strategies employed by the firm, subsequent performance is reliant upon the extent to which these strategies are successfully adopted by the environment (Alchian 1950; Penrose 1995).

The propensity to take risk is viewed by many as the key attribute of a successful entrepreneur. It is argued that the willingness to take risks enables the entrepreneur or owner-management team to operate effectively despite the existence of uncertainty (Knight 1921; Hebert and Link 1988; Chell et al 1991). In this study, most owner-managers viewed risk as a factor that exerted a considerable influence upon decision-making. Attitudes to risk however, varied. Some owner-managers of smaller service oriented firms reported that they were always willing to entertain risk whereas owner-managers of larger firms stated that they had become more confident in their ability to evaluate risk as their firms had expanded. This evidence corroborates previous generalisations that the ability to undertake risk and accurately interpret the nature of an uncertain environment can be viewed as a particular entrepreneurial or managerial competence (Drucker 1985; Hodgson 1995). Furthermore, previous commentators have contended that an individual's self-efficacy for decision-making also determines the extent to which a person is willing to entertain risk (Mullins 1994). An observation made in the semi-structured interviews also supported the view that the propensity to undertake risk diminishes as a firm achieves growth and establishes an asset base (Stevenson 1985; Smith and Miner 1983; Timmons 1985; Begley and Boyd 1987; d'Amboise and Muldowney 1988; Kao 1989). Nevertheless, there were several instances in which owner-managers stated that they were essentially risk averse. Most notably, risk aversion was common place amongst owner-managers of firms in the industrial services/construction classification and the hostility and uncertainty associated with these industries were consistently cited as the source of this unwillingness to entertain risk.
Many owner-managers viewed the assessment of risk to be essential to firm development and performance. Moreover, it was argued that this competence was directly related to

the pursuit of opportunity and vision. This was particularly evident in the larger firms involved in the study. In these cases, the pursuit of opportunity was linked primarily to the objectives of the firm. In addition, opportunity was also evaluated in terms of risk. Existing literature is quick to point out that the absence of enterprising behaviour is a significant barrier to growth (Penrose 1995) and that this behaviour often dissipates as a firm realises growth (Stevenson 1985; Kao 1989). Nevertheless, it is also submitted that any attempt to pursue opportunity is dependent upon the ability of the firm to exploit an opportunity (Baum 1995). Thus, it is perhaps unsurprising that the majority of larger firms in this study adopt a more scientific approach to risk assessment due to an emerging competence to evaluate whether or not an opportunity can be exploited given any existing constraints they might face. Despite this general trend it is pertinent to note that the willingness to undertake risk is also inextricably linked to the motivations of the entrepreneur. As a result some owner-managers that participated in this study contended that personal aspirations could exert both a positive and negative influence upon their propensity to entertain risk.

It was evident that the willingness to undertake risk combined with the existence of high achievement motivation, an internal locus of control and a desire to pursue opportunities, were considered to be important determinants of decision-making by owner-managers of firms involved in this study. Moreover, the research has illustrated that these attributes are subject to temporal change. This study has also highlighted that the effect of personality characteristics upon firm performance remains a complex issue due to their idiosyncratic nature. Notwithstanding this fact, this research has confirmed that whilst these traits are mediated and moderated by ability and motivation, all these factors exert a considerable influence upon decision-making and the strategic direction, development and scope of growth firms. It is therefore reasonable to surmise that the personal attributes of the need to achieve, a willingness to undertake or evaluate risk in response to opportunities provided by the environment and entrepreneurial motivation are key components of the entrepreneurial filter.

9.1.2 Sociological and Experiential Influences

It is argued that certain background factors determine entrepreneurial activity. Previous arguments that the entrepreneur is a deviant personality have been superseded by evidence, which contends that factors such as unemployment, education and experience provide more suitable explanations of small firm creation and growth (Storey 1994). Kinsella et al (1994), Storey (1994) and Barkham et al (1996) all maintain that growth firms are more likely to be owned by entrepreneurs that have been initially attracted to self-employment by a particular market opportunity. Data collected during this study however, suggested that owner-managers started their firm for a number of different reasons. Some set up their companies in response to market opportunities whilst others were forced into self-employment through redundancy and unemployment. Nonetheless, in all cases, owner-managers that participated in the research reported that their businesses had been built to deliver a service or product based upon their personal perception, vision or understanding of an industry.

Owner-managers maintained that previous experience and existing competencies were key determinants of strategic decision-making. In this sense, participants stated that the decision to start the business had been significantly influenced by past industry experience. Furthermore, it was apparent that whilst not all owner-managers possessed industry related experience they were invariably part of a team that did possess this experience. The experience that an owner-management team brings to an entrepreneurial venture has received a considerable amount of attention in the literature. Whilst evidence remains inconclusive as to the effect of industry experience upon performance, this research supports the notion that past experience is inextricably linked to performance. Owner-managers involved in this study reported that previous experience was often utilised in deciding firm strategy and development and these observations help to substantiate claims that there is a positive relationship between experience, performance and growth (Chandler and Hanks 1993; Herron and Robinson 1993). Evidence from the semi-structured interviews supports the view that experience is, in part, responsible for shaping the 'dominant logic' of a firm (Bettis and Parhalad 1995; Reuber and Fischer 1999). Thus, it is argued that the experience of the entrepreneur or owner-management team is also a constituent part of the entrepreneurial filter.

In addition to the influence that previous experience exerts upon the strategic direction and scope of the firm, data from the semi-structured interviews also provided support for the proposition that previous management expertise assisted firm development and growth (Gibb and Dyson 1984; O'Farrell and Hitchens 1988; Davidsson 1991; Beaver and Jennings 1995; Tether 1997; Gasse 1998). Many owner-managers stated that previous management experience in areas such as finance and marketing influenced the strategic direction, evolution and scope of their respective firms. Moreover, quantitative data confirmed that of the 64 owner-managers participating in the study, 47 (73.44%) possessed previous management experience. Apart from previous industry and management experience, other skills considered to be of importance in terms of shaping strategic direction and firm development were directly related to industrial classification. For example, firms in the industrial services/construction classification emphasised the significance of building relationships with clients and suppliers, whereas service oriented firms commented that competencies related to the delivery of a quality service were considered essential. In contrast, owner-managers from manufacturing firms argued that previous knowledge concerning the efficient management of a production process was often utilised to determine firm development.

Previous research has maintained that the increasing complexity of the business environment in which many small firms operate provides that the educational background of the owner-manager or entrepreneurial team is becoming more significant in determining entrepreneurial success (Stanworth and Gray 1991; Chandler and Jansen 1992; Lambing and Kuehl 1997). Evidence from this study however, cannot support this claim and whilst it was evident that 31 (48.44%) owner-managers who participated in this study were educated to at least degree level, comments from the semi-structured interviews seemed to suggest that the value of this education to strategic decision-making was limited. In fact, in the majority of cases it was evident that owner-managers felt that education had little effect upon the decision-making process. The research undertaken also highlighted that the influence exerted by certain demographic influences was limited. Descriptive statistics revealed that the majority of owner-managers were male (90.63%), married (78.1%) and were aged between 35 and 54 (62.41%). Despite these observations, no owner-manager who participated in the study explicitly stated that these demographic influences had any influence upon management development or strategy. Consequently, this research generally supports the proposition made by Chandler and Hanks (1994) that there is no conclusive relationship between certain demographic influences and the entrepreneurial archetype. Furthermore, evidence from the study substantiates claims that there is no one correct combination of background factors which can be consistently applied to the concept of small business growth (Storey 1994; Beaver and Jennings 1995)

Nevertheless, during the qualitative interviews two notable exceptions emerged. Firstly, the sociological factor of age was viewed by owner-managers to having a bearing on decision-making. In this sense, a few owner-managers contended that age had an effect upon their willingness to entertain risk. It was apparent that some of the older owner-managers tended to be risk averse, preferring to make more calculated decisions that ensured that their needs continued to be supported by their businesses. It can therefore be surmised that within the context of this sample, the aspirations of the business were linked to the age of the entrepreneur or owner-management team. Secondly, it was observed that owner-managers of family owned ventures were more inclined to consider the needs of family members and inhibit any decisions that were likely to adversely affect the family unit. Thus, it can be concluded that the importance of demographic factors to the strategic decision-making of growth firms is confined to the relative ages of the entrepreneurial team and the extent to which the business can be categorised as a family oriented venture.

9.1.3 The Owner-Management Team

In instances where growth firms involved in this study were owned and managed by more than one person it was evident that group dynamics also influenced the decision-making process. In most cases, ownership was divided equally but in circumstances where one owner-manager enjoyed a majority shareholding it was observed that this power exerted a considerable influence upon the strategic direction and scope of the firm.

It is argued that the degree of variance in the skills and experience-set of the owner-management team is an essential determinant of success (Eisenhardt and Schoonhoven 1990; Weinzimmer 1997; Chandler and Hanks 1998). Evidence from the study generally corroborates this view with many owner-managers stating that the combination of personalities, skills and experience have assisted firm development and evolution. Moreover, owner-managers were quick to point out that while conflicts arose, the aspirations of the owner-management team were usually similar. Instead, decisions concerning how the firm should meet these objectives and certain personal aspirations of the owner-management team were cited as sources of conflict. Nevertheless, this conflict was often viewed positively and many owner-managers maintained that these differences were beneficial to firm growth and development. In general, these observations support the propositions made by Eisenhardt and Schoonhoven (1990) who submitted that functional and industrial heterogeneity amongst top management teams ensure that the decision-making process does not stagnate and leads to more balanced decision-making.

It is also contended that team founded ventures have a greater chance of success than firms established by an individual (Barkham 1992; Storey 1994; Kinsella et al 1994; Barkham et al 1996; Chandler and Hanks 1998). Data collected however, cannot fully substantiate these claims. A significant proportion of firms (32.26%) are currently managed by one individual. In addition, a few of the firms with owner-management teams were dominated by a majority shareholder. In these circumstances, participants purported that the views of minority shareholders could be ignored or overridden. Consequently, it can be surmised that in instances where an entrepreneur possesses a majority shareholding, the benefits of constructive conflict are severely constrained.

9.1.4 Environment Influences and the Growth Firm

Despite the collection of quantitative data on the age, size, industrial classification, exporting behaviour and market orientation, no conclusions can be drawn as to their influence upon strategic decision-making and firm development. Nevertheless, it is pertinent to note that whilst previous studies have argued that small firm growth is experienced by businesses that occupy niche or localised markets, evidence from the quantitative data refutes these claims. Instead, this research generally supports the premise that growth can be achieved across a variety of markets and sectors (Smallbone et al 1995).

Previous research has continually stated that a wide range of internal and external factors influence small business growth (O'Farrell and Hitchens 1988). It was reported in the course of this study that the internal and external environment exerted a considerable influence upon decision-making. Evidence from the preliminary study and the semi-structured interviews revealed that owner-managers commonly cited the ability of employees as a major consideration in deciding upon future strategies. In addition, many owner-managers also submitted that the availability of management and a suitable labour force were key decision variables that often shaped firm development. Existing literature does not explicitly acknowledge the influence that these perceived capabilities have upon strategic decision-making or firm performance. Nonetheless, previous commentators such as Hart et al (1995) and Hughes (1998) argued that growth is constrained by the firm's ability to access the necessary resources for expansion. Previous studies have also concluded that the lack of management and labour skills is viewed as a considerable constraint to growth (Smallbone et al 1995; Hughes 1998). Moreover, it is argued that growth is also derived from a firm's capability to establish an appropriate business platform from which expansion can be realised (Klofsten 1998; Hughes 1998). Larger firms involved in the study also argued that their development had led to more people being involved in the decision-making. Whilst some respondents reported situations where staff having a direct input into the decision-making process led to increased conflict and lengthened decision-making, this input usually engendered more balanced decision-making. This observation further supports the proposition that functional and industrial heterogeneity are positively correlated with firm growth and development (Eisenhardt and Schoonhoven 1990; Weinzimmer 1997). Nevertheless, in these circumstances the entrepreneur or owner-management team still had the ability to override consensual decision-making.

In all cases, participants stated that market fluctuations and external market forces influenced strategic decision-making. Furthermore, evidence from the semi-structured interviews suggested that larger firms were also more inclined to take into account the activities of competition. In contrast, smaller firms commented upon their need to reduce their dependency on particular customers or markets. These observations support the proposition that smaller firms, due to a tendency to position themselves in localised or niche markets, are more likely to be dependent upon a limited customer base (Cambridge Small Business Research Centre 1992; Hughes 1998). Smaller service oriented and industrial services/construction based firms also reported that customers and suppliers were important decision-making variables. In this sense, owner-managers contended that their activities were often determined by shifts in customer and supplier behaviour.

The availability of resources in response to environmental change was commonly cited by owner-managers as a factor that exerted considerable influence upon the strategic direction and scope of their firms. In addition to the availability of management and labour skills mentioned above, all owner-managers argued that access to financial resources was a fundamental decision-making variable. Access to finance was not limited to external sources and evidence from both the preliminary study and semi-structured interviews seem to support the proposition that the lack of financial expertise, working capital and access to finance constrained growth aspirations (Cambridge Small Business Research Centre 1992; Burns and Harrison 1996; Nayak and Greenfield 1994; Peel and Wilson 1996). Thus, the general consensus between owner-managers involved in this study seemed to suggest that access to resources was an important factor that exerted a significant influence upon decision-making and firm development. In this sense, many owner-managers felt that if their firms were unable to acquire or access key resources such as capital and labour, firm development could subsequently be constrained. It was therefore evident that the majority of owner-managers involved in this study were essentially constrained by resource ownership and thus were comparable with the entrepreneurial management 'trustee' typology developed by Stevenson (1985). It was also apparent that as with risk, entrepreneurial perception of the availability of resources influenced decision-making. Consequently whilst most owner-managers felt that they always looked towards exploiting new opportunities, the decision to proceed was ultimately dependent upon access to or ownership of the necessary resources.

9.1.5 Constructing the Entrepreneurial Filter

Evidence from this study supports the proposition that the personality and background characteristics of the entrepreneur or owner-management team exert a considerable influence upon the strategic direction, scope and development of growth firms. Figure 9.1 provides a theoretical framework of how these factors affect strategic decision-making and firm evolution. These observations also expand the initial framework developed in Chapter five noting the particular influences upon strategic decision-making in growing small ventures.

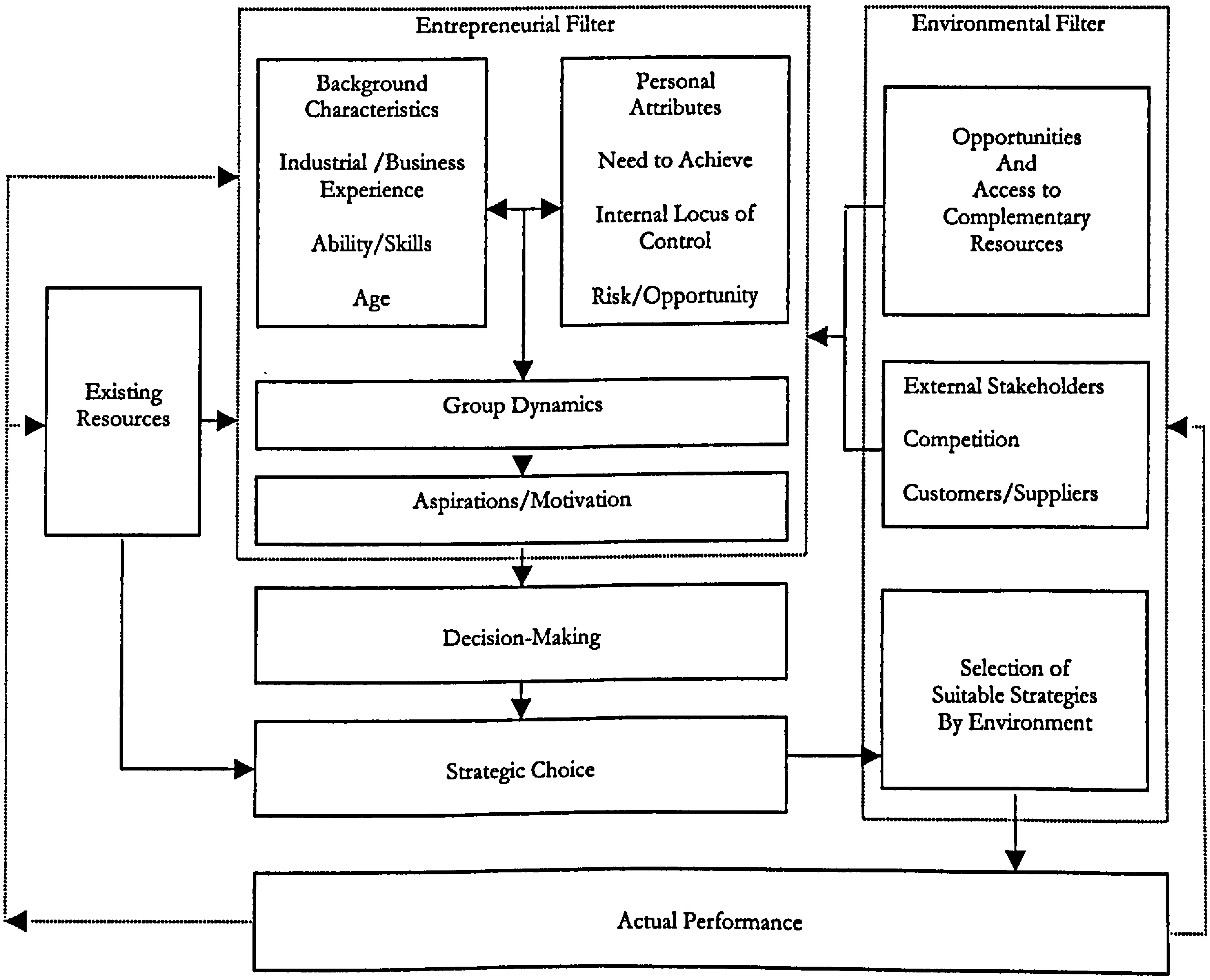

Figure 9.1: The Entrepreneurial Filter and Strategic Decision-Making

Within this context it has been argued that the need to achieve, an internal locus of control, the willingness to undertake risk and pursue opportunities, are all personality traits that impact upon the decision-making process. In addition to these psychological influences, the previous industrial and business experience of owner-managers also shapes the behaviour of growth firms. These factors are responsible for shaping entrepreneurial perception that determines how an entrepreneur or owner-management team interprets the internal and external environment and more significantly shapes entrepreneurial behaviour. Throughout data collection it was evident that external factors such as the existence of opportunities and access to complementary resources, customer behaviour, supplier preferences, the nature of a firm's industry and competition were key elements affecting entrepreneurial perception and behaviour. Similarly, internal factors including responsibility as an employer, the ability of staff, relative size in terms of firm assets and the availability of existing resources were commonly cited by owner-managers as determinants of strategic decision-making.

This evidence provides support for the proposition that entrepreneurial behaviour is synomonous with the decision-making process (Child 1972; Herron and Robinson 1993). Moreover, this study has given additional support to the premise that performance or growth is, to all intents and purposes, an assessment of an owner-manager's strategic and operational competence. Nevertheless, it was apparent from comments made by a number of participants that luck also plays a crucial role in securing entrepreneurial success. In this sense, the research adds weight to the argument that the value of strategies adopted by growth firms is exogenously determined (Alchian 1950; Penrose 1995). The complexity of the environment also suggests that rational optimisation is unrealistic (Kelm 1998). Consequently, whilst performance may encourage self-efficacy in terms of decision-making and risk taking, the existence of uncertainty also ensures that decisions are subject to environmental interpretation. The research has confirmed that environmental effects upon firm success are twofold. Firstly, the internal and external environment shapes entrepreneurial perception and the subsequent strategic direction and scope of the firms. Secondly, the market environment determines actual performance by evaluating the total value of the strategies and activities that result from entrepreneurial decision-making. This constraint, often referred to as 'bounded rationality' has an important effect upon the decision-making process and governs the range of strategic and evolutionary alternatives that are realistically available to the growth firm (Simon 1979; Penrose 1995; Batstone and Pheby 1996; Kelm 1998). Finally, this research suggests that the concepts of environmental determinism and strategic choice are equally relevant to small business growth. Thus, whilst the entrepreneurial filter governs strategic choice, performance is the mechanism by which the strategic competence of the entrepreneur or owner-management team is evaluated.

It is therefore reasonable to conclude that the entrepreneurial filter combined with a number of internal and external influences continuously governs entrepreneurial perception and the strategic behaviour of a growing venture. Moreover, the study indicates that the entrepreneurial filter, refined throughout this thesis, provides a suitable dynamic framework for understanding how and why certain personal, experiential, internal and external factors influence firm development and the adoption of management practices in growth firms.

9.2 The Introduction and Adoption of Management Practices in Growth Firms

Previous research has reported that certain management practices tend to be present in high growth firms and that in some cases the absence of particular management practices are precursors to failure (Storey 1994; Smallbone et al 1995). There is however, confusion in the literature on how and why growth firms generally adopt management practices. Historically, previous literature has attempted to describe management development either in terms of a transition from an entrepreneurial to professional style of management or as part of a stage of firm growth and development. This study suggests that the rationale behind the adoption of certain management practices is derived from three primary sources. Firstly, the adoption of management practices is linked to the previous experience and aspirations of the owner-manager or owner-management team. Secondly, management practice adoption is driven by the need to manage the growth process and ensure that relevant information flows into the decision-making process. Finally, management development in growth firms is governed by the willingness of the owner-manager or entrepreneurial team to pursue growth through further firm evolution. This study also highlights that the various components of the entrepreneurial filter conceptualised in Chapter five and developed in Section 9.1 influence the adoption of management practices in growth firms.

9.2.1 Experience as a Determinant of Management Practice Adoption

During the preliminary study and semi-structured interviews it was evident that the previous experience and knowledge of the entrepreneur or owner-management team was instrumental in deciding what management practices were implemented by growth firms. This observation further supports the proposition made in this thesis that an idiosyncratic entrepreneurial filter influences the strategic decision-making and development of growth firms. Moreover, evidence from this study implies that firms from differing industrial classifications were inclined to introduce management practices that enabled industry specific success factors to be secured. For example, participants from firms that could be classified as industrial services/construction argued that processes and management practices that allowed their respective firms to establish trust through the supply chain were important to long term survival. In these instances, the implementation of practices that attempted to build strong relationships with customers and suppliers and the introduction of quality assurance practices such as ISO 9000 to ensure consistency, were related to the previous experience of the owner-management team. Similarly, owner-managers of firms in the service and manufacturing industries also reported that management practices aimed at securing customer loyalty and improving service delivery or product quality were usually linked to prior industry knowledge and experience. This evidence offers support for the claims made by Aldrich and Fiol (1994) and Markman and Baron (1998) that building relationships with internal and external stakeholders is a particular entrepreneurial competence derived from previous industry experience. These observations generally support the proposition that previous experience and growth are inter-related (Sandberg and Hofer 1987; O'Farrell and Hitchens 1988; Chandler and Hanks 1993; Herron and Robinson 1993; Reuber and Fischer 1999). Moreover, the fact that previous experience was cited as a major factor behind why growth firms adopt certain management practices further supports the proposition that the lack of management or industrial experience inhibits growth (Gibb and Dyson 1984; Gibb and Davies 1990; Chandler and Jansen 1992; Beaver and Jennings 1995).

Many owner-managers also considered previous management experience as the principal rationale behind the adoption of professional management techniques such as business planning and objective setting. A number of firms in this study had quickly adopted a formalised approach to strategic decision-making and when questioned, owner-managers confirmed that past experience had prompted this action. These observations support the claims of previous commentators such as Gibb and Davies (1990), Storey (1994), Kinsella et al (1994) and Barkham et al (1996) who argued that formal planning is a prerequisite to growth. There were however, a few exceptions to this general trend, most notably in the case of the three family oriented firms involved in this study. In all three of these cases there was no evidence to suggest that these firms shared the viewpoint of other owner-managers in relation to the professionalisation of the business. Despite these exceptions it was apparent that the majority of owner-managers involved in this study contended that their businesses had been professionally managed from start-up. The extent of this professionalism was governed principally by entrepreneurial perception and past industrial and managerial experience. Thus, the premise that growth firms usually undergo a transition from an entreprenuerially managed to a professionally managed (Flamhotz 1986; Watson 1995), organisation cannot be fully supported by this research. In fact, it is pertinent to note that evidence from this research suggests that growth firms involved in this research were more inclined to introduce professional management during the initial phases of firm development. Thus, this research seems to strengthen the proposition made by Smallbone et al (1995) that growth firms are more inclined to introduce professional management practices to fuel growth.

In addition to a professional style of management the previous experience of owner-managers involved in this study also led many to introduce management practices that enabled strategy to be communicated throughout the organisation. Nonetheless, there was considerable variation in terms of allowing others to contribute to the decision-making process. For example, comments made by certain owner-managers suggested that previous experience had encouraged them to involve others in the decision-making. Thus, as with the entrepreneurial filter, these owner-managers reported that past experience had illustrated the benefits of a consensual and more balanced decision-making process (Eisenhardt and Schoonhoven 1990; Weinzimmer 1997; Chandler and Hanks 1998). Other owner-managers however, contended that past management experience had taught them that too much input often led to ineffective and unresponsive decision-making. Furthermore, these owner-managers argued that the success of their company was dependent upon maintaining a clear vision and that the ancillary aspirations and objectives of other stakeholders could conceivably dilute the primary goals of their organisations. Given that this behaviour was evident in both large and small firms, it is reasonable to surmise that these observations conflict with two different viewpoints in the existing small business growth literature. Firstly, a willingness to involve others in determining business strategy seems to partly undermine theories that suggest that owner-managers in growth firms in the initial stages of development are essentially autocratic (Ray and Hutchinson 1983). Secondly, the existence of autocracy in large firms also refutes claims that as firms grow they tend to opt for more consensual forms of strategic decision-making (Flamhotz 1986; Scott and Bruce 1987; Dodge and Robbins 1992).

9.2.2 Adopting Management Practices to Co-ordinate Growth

During the preliminary study and semi-structured interviews owner-managers implied that one of the main reasons behind the adoption of management practices associated with planning and control was to effectively manage growth. It has been previously stated in Section 9.2.1 that with the exception of family oriented firms all firms involved in this study had introduced formalised planning. The sophistication of the planning undertaken however, was related to firm size. Consequently, whilst there were instances where smaller ventures had introduced complex systems of planning and control, it was apparent that larger firms normally employed more complex planning and control techniques. Previous literature has consistently cited formalised planning as a prerequisite of success (Robinson and Pearce 1984; Lyles et al 1993; Kinsella et al 1994; Rue and Ibrahim 1998). This research tends to support these claims with the exception of the family run businesses involved in the study. Nevertheless, evidence from both the semi-structured interviews and preliminary study suggests that whilst smaller firms had no need to introduce formalised planning that exceeded their existing resource base, these firms did undertake less complex forms of formalised planning and control. Thus, this research cannot substantiate the commonly held view that smaller firms wishing to grow are often constrained by a tendency to concentrate on managing operational issues (Sonfeld 1994; Ahire 1996). Conversely, this study provides additional support for the proposition that survival and growth are dependent upon a firm's ability to continually manage resource allocation (Yeh-Yun Lin 1998).

Planning and control was achieved in firms irrespective of size and industrial classification through the introduction of management information systems that enabled the entrepreneur or owner-management team to manage the business remotely. Management information systems varied in their complexity but generally owner-managers stated that the systems were geared towards furnishing the decision-making process with important financial, resource, customer and market information. Observations made during the semi-structured interviews implied that management information systems delivered data to the entrepreneur or owner-management team through a wide range of mediums from complex computer databases to paper based systems. The utilisation of management information systems to assist planning and enable decision makers to control business activities, seems to corroborate the view that management in growth firms shifts from a holistic to a more functional form of management (Gibb and Davies 1990; Watson 1995). This research also seems to support the proposition that growth firms are more likely to have the ability to introduce appropriate systems and organisational structures to manage growth and an expanding resource base (d'Amboise and Muldowney 1988; Dyer 1997). Furthermore, it is important to acknowledge that the development of management information systems can also be attributed to the entrepreneurial filter developed in Section 9.1. In fact, the entrepreneur or owner-management team essentially determines the information provided by systems of planning and control. Thus, it is reasonable to surmise that in the initial stages of firm growth the development of management practices such as planning and control continue to be driven by the personality characteristics, experience, knowledge and aspirations of owner-managers.

Closely related to the introduction of planning and control to co-ordinate the growth process was the importance of financial management practices to firms involved in this study. The majority of firms irrespective of size and industrial classification had implemented financial management practices such as budgeting, financial objective setting and reporting to co-ordinate growth. The significance of financial management to firm success has already been debated in the existing small business literature. Commentators such as McMahon and Scott (1991) argued that the financial practices used by small ventures has remained largely unchanged and that there is no evidence to suggest that the use of financial management differentiates a successful firm from an unsuccessful one. In contrast, Storey et al (1987), Nayak and Greenfield (1994) and Storey (1994) contend that poor financial management is often a precursor to business failure.

Evidence from this research suggests that growth firms utilise financial practices that enable them to co-ordinate and facilitate growth. Owner-managers involved in the study were quick to emphasise the importance of financial information to the determination of firm strategy and how the lack of finance had often frustrated their growth aspirations. This observation offers another link to the external and internal factors discussed in Section 9.1.4 that influence the strategic decision process and constituent elements of the entrepreneurial filter. Moreover, comments made by owner-managers in both the preliminary study and the semi-structured interviews seem to reiterate the importance of financial resources to facilitating growth. These statements seem to corroborate the commonly held view that access to financial resources is a key determinant of growth (European Commission 1996b; Balje and Waasdorp 1999). In a few instances, owner-managers reported that they had discovered factoring and invoice discounting as solutions to their needs to resource growth and pursue growth aspirations. Interestingly, the use of invoice discounting was not restricted to firm size in either the service or manufacturing industrial classification. The use of these practices however, was not evident in firms in the industrial services/construction classification and may reflect the importance of mutual trust and relationships cited by owner-managers of these firms.

Owner-managers involved in the study argued that financial management practices had improved the decision-making process. Whilst many were quick to point out that in the majority cases the practices they had introduced had enabled them to assess the potential rewards of exploiting opportunities, these practices had also had adverse effect on their willingness to pursue certain opportunities. This is perhaps unsurprising given that financial reporting provides information on the potential cost of exploiting an opportunity. Consequently, many owner-managers reported that whilst financial management practices had enabled them to improve the quality of the decision-making process, this improvement had subsequently influenced this willingness to undertake risk. Nonetheless, participants suggested that in most cases this had been advantageous as stringent financial management had usually exposed certain opportunities as unrealistic. This observation seems to substantiate the claims made by Stevenson (1985), Kao (1989) and Mullins (1994) who all argued that the existence of a resource base and increasing net worth often placed constraints on subsequent expansion. Notwithstanding this fact, it is pertinent to note that owner-managers do not perceive financial management as a barrier to growth but as a valuable practice that improves the quality of decision-making by enhancing their ability to calculate risk. Thus, it is reasonable to conclude that the introduction of financial management practices has generally decreased the propensity to undertake unnecessary risk and enabled growth owner-managers to manage the allocation of resources more efficiently in relation to the pursuit of opportunities to satisfy growth aspirations.

Various techniques had also been used to standardise work practices. Many owner-managers suggested that the use of ISO 9000 had proved to be invaluable. In this sense, they argued that this system of quality assurance could also be implemented to guarantee that certain procedures were followed outside the direct supervision of the owner-management team. Moreover, a few owner-managers commented that the ISO 9000 helped to maintain a company's vision by ensuring that the firm was organised in a way that strengthened the previous experience and knowledge of owner-managers. The use of quality standards such as ISO 9000 is receiving increased attention in the small business literature and evidence from this research implied that firms were implementing and customising the ISO 9000 standard to promote consistency and maintain effectiveness. This observation suggests that the arguments put forward by Cranswick (1995) and Chittenden et al (1998) regarding the utilisation of ISO 9000 and other quality standards to improve competitiveness, efficiency and meet pre-ordained management expectations, are supported by this study.

9.2.3 Firm Evolution

The third reason behind the introduction of management practices was to assist and facilitate firm development and evolution. During the preliminary study and semi-structured interview phases of this research, owner-managers reported that the introduction of new layers of management had been instrumental to growth. Moreover, there was a notable difference between the number of management layers present in the smaller firms in the study when compared with their larger counterparts. In general, it was apparent that larger firms tended to have a wider range of management expertise whilst smaller firms had attempted to develop management expertise in one or two key areas. This observation provides additional support for the proposition that firm growth forces organisations to become more formal and introduce functionality and bureaucracy to manage growth (Churchill and Lewis 1983; Stevenson and Jarillo-Mossi 1986; Kao 1989; Dodge and Robbins 1992; Kinsella et al 1994; Storey 1994; Barkham et al 1996). This evidence further corroborates the view that management in smaller ventures tends to be more of a holistic nature (Gibb and Davies 1990; Stanworth and Gray 1991). Furthermore, comments made by owner-managers of firms involved in this study also suggested that the implementation and development of professional and functional management are synomonous with the growth firm (Storey and Sykes 1996; Smallbone et al 1995). Nevertheless, participants clearly stated that whilst there was a need to introduce new layers of management and departmentalise their ventures, they had taken steps to try to avoid the pitfalls of professionalism and bureaucracy. Hence, many owner-managers contended that they had made every effort to preserve their vision and ensure that any adverse effects of bureaucracy and formalisation were minimised. These statements seem to suggest that the owner-managers involved in this study subscribe to the view that there is an inherent need to preserve entrepreneurship throughout the growth process (Stevenson and Jarillo-Mossi 1986) to reduce functional conflict, opportunism and self interest that is associated with large organisations (Alchian and Demetz 1972; Williamson 1975; Cromie et al 1995). In addition, in line with the observations made in Section 9.1.4, it was also apparent that the need to introduce new layers of management was often frustrated by a lack of suitable candidates. In these circumstances owner-managers implied that previous recruitment mistakes adversely affected growth and consequently owner-managers had concluded as a result, that it was usually better to introduce layers of management before they were required if they could recruit individuals with the right attitude and competencies. In instances where this was not possible, owner-managers generally submitted that the lack of access to a suitable management often frustrated their growth aspirations.

During the second stage of this study a number of owner-managers argued that past success had led them to the conclusion that there was a need to augment their existing competence and knowledge base. In this sense, they argued that the introduction of new skills and resources had enabled them to establish a business platform (Klofsten 1998) capable of facilitating further growth. Despite differences in firm size, as to the complexity and extent of the business platform, it is pertinent to note that the majority of owner-managers, irrespective of firm size or industrial classification viewed the introduction of new expertise to be crucial to sustained success. In almost all cases, owner-managers confirmed that they had introduced key personnel to enhance the strategic capabilities of their firm. In some instances, most notably in firms employing less than 50 people, there was a wide range of methods used to achieve this goal. In the simplest case, owner-managers suggested that they had introduced new layers of management to remove themselves from operational issues, delegating this authority to key personnel so they could find time to contemplate the future of the business. Other firms had introduced non-executive directors with key management expertise in areas such as finance and marketing and some had implemented a board of directors that governed strategic decision-making. Similarly, larger firms employing more than 50 people, also employed similar techniques. Whilst it was evident that the number of management layers that existed in a particular firm depended upon its size, evidence from the semi-structured interviews suggested that the types of decision-making forums utilised by owner-managers varied enormously across the dimensions of industrial classification and firm size.

Notwithstanding the methods employed to facilitate firm development and growth, it was apparent that in the majority of cases owner-managers were seeking ways of improving the quality of the decision-making process and the efficient operation of their ventures. Regardless of whether operational delegation had been preferred to the use of non-executive directors or a board of directors it was apparent that the introduction of new layers management created managerial slack and enhanced the competence base of the organisation. Consequently, it can be argued that the augmentation of their company's knowledge and experience base combined with managerial slack enabled owner-managers of firms involved in this study to improve the decision-making process (Lyles et al 1993; Penrose 1995). The fact that their owner-managers had or were considering the introduction of new layers of management to assist firm development through the addition of complementary expertise to create managerial slack suggests that these owner-managers were aware of the dangers of becoming strategically 'myopic'. In other words, owner-managers involved in this study whilst accepting that in the initial stages of development there was a need for holistic management (Gibb and Davies 1990; Stanworth and Gray 1991), recognised the importance of management evolution to sustained growth (Beaver and Jennings 1995; Jennings and Beaver 1997; Dyer 1997).

There were however, a few instances where owner-managers displayed an unwillingness to lose control. In two of the three family oriented firms participating in this study, the owner-managers implied that they had no desire to recruit management expertise that challenged their authority. In both cases, these owner-managers suggested that any additional layers of management that had been introduced had been motivated by the need to give themselves extra time with their families. In addition, in two smaller professional businesses, owner-managers stated that they had implemented new layers of management that would afford them more time away from their businesses to enjoy the lifestyle that previous success had created as they prepared for retirement. These observations seem to support the proposition that owner-managers often resist change and are unwilling to pursue growth that threatens their autonomy (Burns and Harrison 1996; Mintzberg and Quinn 1996). Nevertheless, it is perhaps noteworthy that several owner-managers of larger firms involved in this study continue to resist the introduction of new layers of management that influence strategic decision-making. In these cases, previous experience and a personal desire for the decision-making process to be lean and responsive has restricted the evolution of management to only enhancing operational aspects of their businesses. These preferences provide support for the notion that firm growth and the emergence of additional stakeholders increasingly influences decision-making (Atkins and Lowe 1994). By limiting, managerial development these owner-managers have ensured that their vision and aspirations are not diluted. Thus, whilst in general this research provides empirical support for the evolutionary nature of small business growth (Churchill and Lewis 1983; O'Farrell and Hitchens 1988; Gibb and Davies 1990), the social preferences of the entrepreneur or owner-management team reiterates the fact that managerial development is essentially a unique process (Jennings and Beaver 1997). It is therefore reasonable to conclude that the results of this research support the proposition that the entrepreneurial filter exerts a considerable influence upon firm development and management evolution.

9.2.4 Drivers of Management Adoption and Firm Development

During both phases of this study, owner-managers stated that the introduction of management practices was driven by three factors. Firstly, owner-managers of growth firms use past experience to decide what management practices are required for their businesses. Secondly, management practices are adopted by growth firms to manage the process of growth and co-ordinate the effective allocation of resources. Finally, the research suggests that in addition to the introduction of management practices to support growth, owner-managers also implement practices or new layers of management to facilitate subsequent growth. Figure 9.2 developed initially from the conceptual framework proposed in Chapter five helps to explain why growth firms adopt management practices. Within the context of this research, the introduction of new layers of management and the implementation of a wide range of financial reporting, quality assurance, planning and control techniques have been utilised to manage and facilitate the growth process.

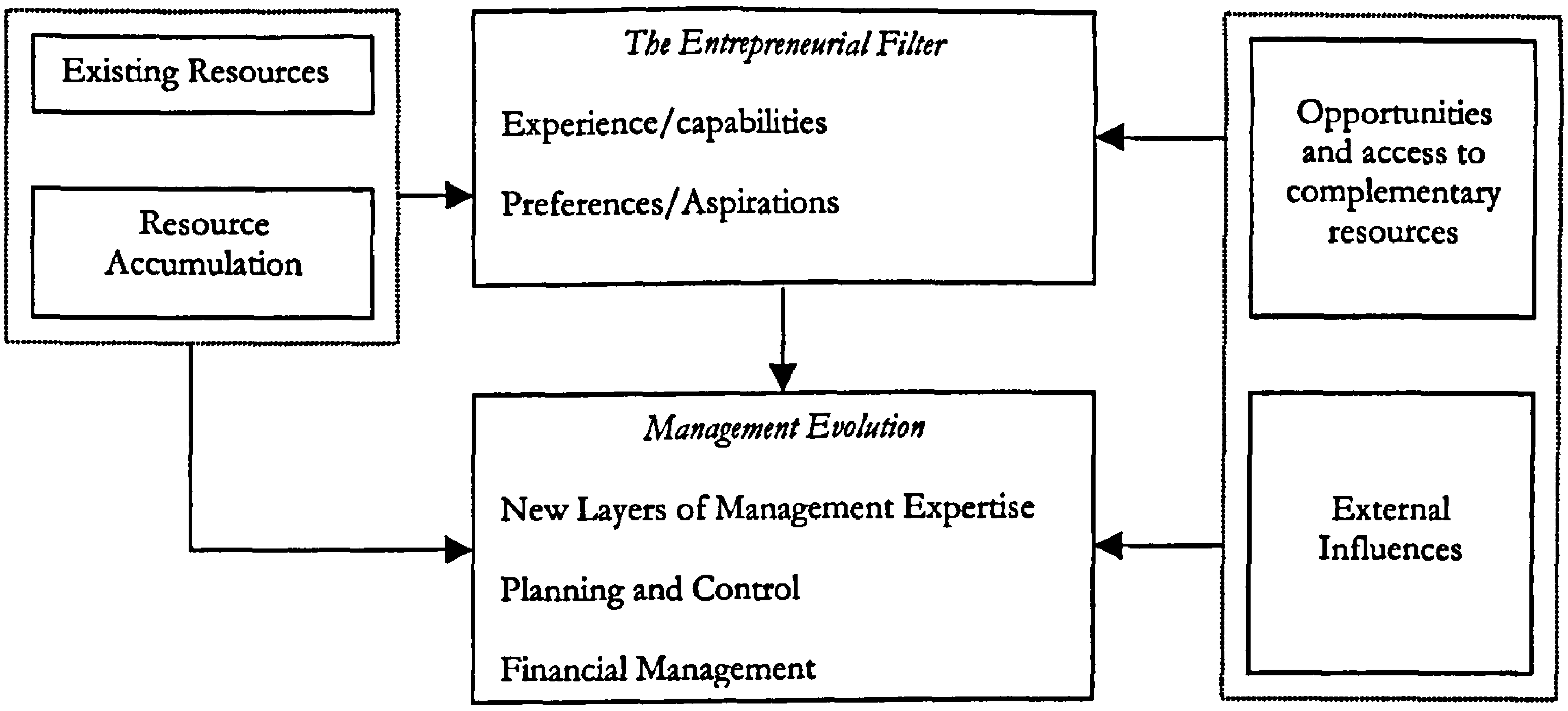

Figure 9.2 Drivers of Management Development

The social preferences, experience and knowledge of the entrepreneur or owner-management team have also influenced the adoption of management practices. These preferences cannot be understated and the importance of these factors adds further weight to the argument that the entrepreneurial filter not only has a significant effect upon strategic decision-making but also management development.

9.3 Management Practices as Sources of Competitive Advantage

Previous studies have argued that a firm cannot enter into a new phase of growth until it achieves a business platform that allows it to successfully overcome certain growth impediments (Greiner 1972; Hjern et al 1980; Scott and Bruce 1987; O'Farrell and Hitchens 1988). The conceptual framework developed in Chapter five also suggests that success is determined by the extent to which the firm can successfully establish a superior competitive position in its market in relation to its competition. Historically, the majority of literature has concentrated upon analysing a firm's external environment without considering whether a firm has the internal competencies or capabilities to secure its competitive position (Barney 1991; Foss 1996). This study however, has adopted the viewpoint that the ability of a small venture to grow is dependent upon its emerging competencies and capabilities, which endow it with the ability to build and sustain a competitive advantage. Within this framework it is contended that the role of management is to essentially develop, integrate, adapt and re-deploy a firm's capabilities to secure its competitive position against environmental change and uncertainty. As previously stated, the adoption of management practices is shaped by an idiosyncratic entrepreneurial filter. Consequently, this study has examined how management practices endow growth firms with the ability to develop and build competencies that enabled them to sustain and augment existing competitive advantages in relation to entrepreneurial perception.

9.3.1 Emerging Managerial Competence and Competitive Advantage

During the group and semi-structured interview stages of this study it was apparent that owner-managers were looking to build upon initial successes by developing practices and processes that enabled their businesses to maintain or improve their competitive position. Throughout the interview process owner-managers were quick to acknowledge the value of utilising marketing techniques, routinisation and the protection of intellectual property rights and patents to sustaining competitiveness.

Previous commentators have commonly cited the importance of marketing to a growing venture in terms of developing and maintaining a customer base (Storey 1994; Smallbone et al 1995; Tether 1997; Gasse 1998; Smallbone and Wyer 2000; Stokes 2000). Moreover, there is a general consensus in the literature that growth firms compete on service, as businesses that compete purely on price are unlikely to experience growth (Storey et al 1989; Kinsella et al 1994; Gilmore et al 1999). This research generally substantiates these claims. Owner-managers reported, during the course of this study, that one of the most important success factors was the ability to provide customers with consistency in terms of product and service quality. In all cases, owner-managers perceived that marketing was an important management tool that could be used to build reputation and establish trust relationships with customers. In smaller companies involved in this study, it was evident that owner-managers were attempting to implement marketing techniques that enabled them to move away from securing business based upon personal relationships and develop the image and reputation of their business. Thus, owner-managers were quick to acknowledge the importance of reputation to competitive success. Furthermore, it was observed that whilst owner-managers recognised that in the initial stages of firm development their personal interaction with customers was conducive to competitive success, subsequent success was increasingly dependent upon building a business identity. This evidence provides additional support for the proposition that the willingness of the entrepreneur or owner-manager to delegate authority is positively correlated with growth. In addition, this data suggests that the majority of owner-managers were also aiming to professionalise their firm in order to assist firm development.

Larger firms participating in the research suggested that marketing was commonly used to secure and defend a competitive position. Benchmarking, customer feedback, dedicated customer support, marketing intelligence and competitor analysis were all regularly cited as practices that were utilised to maintain existing competitive advantages. In the majority of cases, owner-managers reasoned that the ability to sustain the competitive position of their firm was borne from understanding and responding to customers and developments in their business environment. These observations seem to corroborate the findings of Kinsella et al (1994) and Smallbone et al (1995) who posited that growth firms were more inclined to regularly analyse the environment and competitor behaviour. The use of more formal marketing techniques however, was not restricted to larger firms and it was apparent that a number of smaller firms had also implemented marketing practices to maintain their competitive advantage.

One notable exception to this general trend was that in almost all cases, firms that resided in the industrial services/construction classification were less inclined to implement marketing techniques. In these cases, owner-managers argued that whilst building and maintaining relationships was imperative to success there was little need to de-personalise and formalise the process to maintain any competitive advantages these relationships engendered. Moreover, previous research by Gadenne (1998) suggests that firms tend to develop competencies that furnish a firm with industry specific competencies. It is therefore reasonable to surmise that the importance of marketing to this industry, in terms of securing a good reputation, is more reliant upon establishing personal relationships with customers and suppliers through the supply chain.

Previous studies have reported that growth firms have the capability to exploit and develop new products and markets (Storey et al 1989; Smallbone et al 1995; Barkham et al 1996). Despite this competence, evidence from the semi-structured interviews implies that the ability to innovate and exploit new markets should be supported by practices that ensure that patents and intellectual property rights are not violated. In each of the three cases, where innovation and creativity were cited as sources of competitive advantage, owner-managers felt that the extent to which they could classify this particular advantage was dependent upon their ability to police their environment. In other words, these companies were not only concerned with how they could utilise a combination of innovation, marketing techniques and routinisation to maintain their competitive position, but also associated legal competencies that would prohibit imitation. This apprehension seems to support the premise that despite the initial returns that can be gained from innovative products and services, competitive advantage can only be secured if the source of the innovation can be sustained. Thus, in the context of this study, it can be argued that competitive advantage is determined by a firm's ability to either ensure that related competencies are imperfectly mobile (Wernerfelt 1984, 1989, 1995; Rumelt 1984; Barney 1991; Conner 1991; Penrose 1995; Foss 1996) or can be adequately protected by intellectual property rights and patent legislation.

Throughout the study it was apparent that owner-managers were inclined to implement routines that maintained competitive advantage. Without exception, it was observed that practices had been introduced to ensure particular outcomes. In this sense, owner-managers, irrespective of firm size and industrial classification, stated that they had looked at formalising processes as a means of governing firm behaviour. In many cases the formalisation process involved the routinisation of systems and practices that reflected the vision, knowledge and experience of the entrepreneur or owner-management team. It can be argued that the absorption of these factors, to all intents and purposes, represents an attempt to build organisational routines that allow operational and strategic competencies to emerge. These observations help to further substantiate the proposition that the internal capabilities of a firm are important to success (Wernerfelt 1984, 1989, 1995; Rumelt 1984; Barney 1991; Mintzberg and Quinn 1996; Penrose 1995; Foss 1996; Thompson 1999).

Participants reported that the formalisation of practices such as marketing, financial management, management information systems, ISO 9000 and associated planning and control techniques, had led to their companies developing specific competencies that helped sustain competitive advantages. This awareness combined with a unique development process suggests that the implementation of management practices to secure competitive advantage are being utilised by owner-managers of growth firms to build competencies that are potentially valuable, rare, costly to imitate or replace (Barney 1991). Thus, the formalisation of accumulated knowledge and experience has been used by these firms to develop competencies that sustain a particular strategic position. This evidence corroborates the view that the formalisation and internalisation of organisational routines are sources of competitive advantage (Barney 1991; Teece and Pisano 1994; Hodgson 1995; Foss 1996). Management practices such as marketing and financial reporting also ensured that the value of these routines and procedures could be consistently evaluated. Moreover, routinisation enabled the firms in this study to standardise internal and external practices. It can also be argued that the emergence of organisational competence through standardisation allows a firm to utilise its resources more effectively, creating organisational slack that can, in turn, be utilised to pursue new opportunities or further strengthen competitive advantage (Teece and Pisano 1994; Penrose 1995; Knudsen 1996).

The importance of routinisation was also reflected in the significance attached to training by many owner-managers. In almost all cases, training was considered to be instrumental in sustaining competitive advantage. In this sense, owner-managers reported that the socialisation of employees into the organisation ensured that staff were quickly made aware of how the firm operated and what was expected of them. Previous studies have generally reported that there is no conclusive evidence linking training to performance (Marshall et al 1995; Westhead and Storey 1997). This research however, seems to imply that growth firms are more likely to undertake training in circumstances where it provides the firm with the ability to maintain its existing competitive advantage. Thus, this study supports the proposition that employee development and training are positively correlated with growth (Kinsella et al 1994; Smallbone et al 1995). Furthermore, the realisation by participants that training is a source of competitive advantage also substantiates the arguments of Kerr and MacDougall (1999) who contend that to be beneficial, training should be viewed in a strategic context. The degree of training formality differed significantly amongst the firms involved in this study. Whilst larger firms, in general, opted for more formal processes of employee development and socialisation, a number of smaller firms alluded to the fact they had implemented comprehensive training programmes. Conversely, owner-managers from a few of the larger firms reported that it had only been necessary to introduce 'on-the-job' training to maintain and build competencies that contributed to firm competitiveness.

The complexity and extent of organisational routines introduced by firms involved in this study however, was generally related to firm size. Thus, whilst smaller firms had introduced a number of routines as a means of sustaining competitive advantage, larger firms tended to have more complex routines to manage various facets of their operation and maintain their strategic position. In addition, whilst manufacturing and service firms were pre-occupied with building competencies that improved efficiency, quality and customer service, industrial services/construction firms were more concerned with building and maintaining relationships with suppliers and customers. This observation further corroborates the proposition made by Gadeene (1998) that management practices are often introduced by small firms to support or strengthen an existing strategic position.

9.3.2 Dynamic Capabilities and Competitive Advantage

There was a dearth of information concerning the implementation of management practices that endow growth firms with a range of dynamic capabilities. Nevertheless, owner-managers implied that the introduction of certain systems and procedures improve the productive capability of their firm. In the majority of cases, participants re-affirmed the importance of human resources. During the preliminary and secondary stages of this study, there was a general consensus that finding the right mix of skills and attitudes was conducive to growth. This evidence provides additional empirical support for the proposition that human resource management (HRM) is related to firm performance (Hornsby and Kuratko 1990; Becker and Gerhart 1996; Wagar 1998). Furthermore, this observation also corroborates the view that the retention and recruitment of a well motivated and skilled workforce is one of the major challenges faced by small businesses (Marlow and Patton 1993). The existence of an adaptive culture was evident in a number of different sized firms in all three industrial classifications. The complexity of a firm's human resource management policy however, varied considerably amongst the growth firms involved in this study. This complexity could not be attributed solely to firm size, as a number of smaller firms also employed a number of progressive employment strategies such as empowerment, Investors in People, continuous improvement and the utilisation of quality circles. Thus, it was apparent that owner-managers viewed employees and the right culture as vital ingredients to competitive success. This finding refutes claims by previous researchers that small firms usually have low levels of HRM sophistication in comparison to their larger counterparts (McEvoy 1984; Golhar and Despande 1997). It can also be argued that within the context of this research, owner-managers attached significant importance to human resource development and establishing an adaptive culture. Furthermore, it is evident that decisions to undertake training and develop organisational routines discussed in Section 9.3.1 are inextricably linked to the desire to build an maintain and adaptive and responsive culture.

Closely related to the concept of building an adaptive organisation was the importance owner-managers gave to improving managerial competence and capabilities. It has already been established in Section 9.2.3 that the recruitment and development of management expertise was considered to be instrumental to firm growth. Owner-managers also stated that the development of new management expertise enabled their firms to build new capabilities that could be utilised to exploit opportunities and strengthen existing competitive advantages. In this sense, it was reported that the development of practices such as marketing, financial and management information systems, combined with an expanding knowledge base enabled owner-managers to make informed strategic decisions and allocate resources more efficiently. The formalisation of the decision-making process and the augmentation of the existing resource base through the addition of systems, practices and new expertise however, were less evident in the industrial services/construction and the three family oriented firms involved in this study. In all these cases, there was little evidence that management practices had been introduced to endow the firms with a dynamic capability that could build upon existing strengths. One possible reason behind these actions is that in these firms there seemed to be some reluctance to release control and consider new perspectives. Thus, it is apparent that the social preferences of owner-managers can have an adverse effect upon the ability of management to build a range of competencies that can assist firm development and sustained competitive advantage. In contrast, it seems reasonable to surmise that the majority of owner-managers view the augmentation of management expertise as a necessary step in the improvement and enhancement of existing competencies and capabilities. This awareness seems to imply that entrepreneurs or owner-management teams involved in this study have attempted to reduce uncertainty by recruiting additional expertise and improve their organisation's ability to respond to environmental opportunities and threats. Moreover, the introduction of new layers of management and specific systems and practices also provides a firm with the ability to generate the necessary organisation slack to expand its existing productive capability (Penrose 1995).

9.3.3 Securing Competitive Advantage through Management Development

Long term survival and growth is dependent upon the ability of management to build a resource base that can endow a firm with sources of competitive advantage (Wernerfelt 1984, 1989, 1995). This study suggests that the management practices employed by owner-managers of growth firms attempt to build these competencies and capabilities through management development.

Furthermore, within the context of this research, evidence suggests that management practices such as the formalisation and routinisation of work practices, planning, financial reporting, quality control and marketing, are utilised to improve efficiency, reduce uncertainty and maintain and strengthen existing competencies. Conversely, the creation of an adaptive and responsive organisation and the recruitment of management expertise were viewed by owner-managers as mechanisms by which the existing resource base of their firms could be expanded to take advantage of new opportunities. Figure 9.3, building upon the conceptual framework in Chapter five and the observations made throughout this study, depicts how management practices adopted by growth firms drive the improvement and formalisation of the resource base of the firm. The framework also illustrates the importance of internal capabilities to firm success. The nature of entrepreneurial perception combined with ever changing environmental conditions provides that the historical development of a firm is essentially unique. Consequently, management development in the form of recruitment of expertise and the implementation of various routines, systems and practices is largely heterogeneous. Nevertheless, it is evident that the rationale behind management adoption, in the firms involved in this study, was one of securing and enhancing their competitive position.

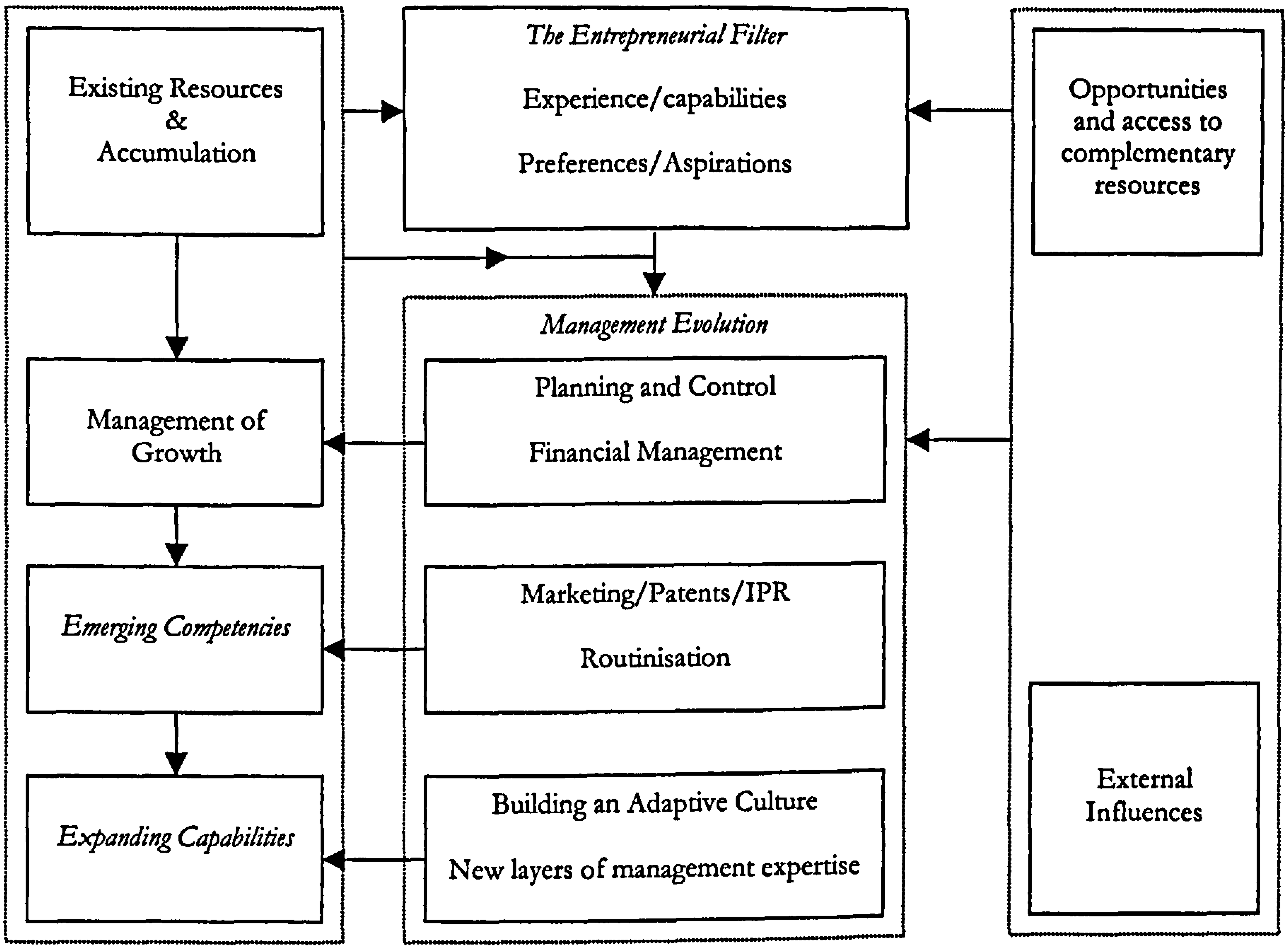

Figure 9.3 Competitive Advantage and Management Development

Given that the development process is unique and that past success implies that previous strategies have afforded these ventures some form of competitive advantage, it seems reasonable to surmise that managerial development is crucial to subsequent growth. Thus, it is the management practices introduced by the entrepreneur or owner-management team that identify and establish competencies that enable particular strategies to be sources of sustained competitive advantage (Teece and Pisano 1994; Hodgson 1995; Foss 1996).

There was also evidence that owner-managers were looking to management recruitment and development to enhance existing firm capabilities. At the most basic level, participants reported that they had established management layers to remove operational burdens in order to concentrate on strategic issues and company direction. Others argued that the introduction of management expertise and practices had improved the allocation of resources and created managerial slack that could be utilised to pursue opportunities. Regardless of how formalised and integrated management practices were in the firms involved in the study, it was evident that the majority of owner-managers recognised the importance of remaining responsive to change. This evidence suggests that growth oriented firms are more likely to develop systems, controls and expertise that can adapt and successfully reconfigure resources to take account of environmental change. Furthermore, in cases where new management expertise was allowed to influence strategic decision-making, statements made by a number of owner-managers regarding the need to widen the knowledge and decision-making forum, suggests that action is being taken to reduce the limitations of entrepreneurial perception and bounded rationality. It is therefore reasonable to conclude that within the boundaries of this research, management practices are being developed to ensure that certain competitive advantages can be sustained in the long run.

9.4 The Management Filter and Strategic Decision-Making

Sections 9.2 and 9.3 highlighted that management practices had been introduced by firms involved in this study for a wide range of reasons. In general, it has been observed that growth firms implement new layers of management, practices and processes in response to the experience and preferences of the entrepreneur, to manage the process of growth or to assist firm development and evolution. Regardless of the motivation behind the introduction of these management practices it was apparent that they affected decision-making in two ways. Firstly, these practices influenced and managed operational aspects of firm development and growth and secondly, the implementation of information systems and introduction of new layers of management also had an effect upon strategic decision-making. Whilst the motivation behind the inauguration of these practices has already been discussed at length throughout Sections 9.1 and 9.2, it is important to acknowledge the extent to which these practices subsequently influence decision-making.

9.4.1 Management Development and Operational Decision-Making

During the research it was evident that owner-managers had implemented certain management practices to improve operational control and decision-making. This observation further corroborates previous claims discussed in Sections 9.2.2 and 9.2.3 that growth oriented firms are more likely to entertain delegation and departmentalisation of certain functions. Notwithstanding this fact, it is perhaps pertinent to note that whilst practices such as the standardisation and routinisation of work practices ensured that firms maintained existing competitive advantages, they had very little direct impact upon strategic decision-making. Nevertheless, despite this apparent lack of direct impact, owner-managers reported that operationally led management practices did have a positive effect upon decision-making. In this sense, they argued that the removal of operational burdens resulting from the implementation of practices enabled them to devote more time to strategic decision-making. In fact, in most instances the need to introduce management practices was motivated by the desire for owner-managers to spend less time on 'fire-fighting' and more time looking at the future of their respective businesses. As a result systems and practices had been developed so that business tasks could be undertaken without the direct supervision of the entrepreneur or owner-management team. Moreover, the introduction of practices such as ISO 9000 and work related checklists were seen to be a mechanism through which resources could be allocated more efficiently and hence, make available additional resources for expansion or consolidation. This evidence substantiates the view of various commentators who contend that in order to achieve growth entrepreneurs have to resist the temptation to manage every function (O'Farrell and Hitchens 1988; Beaver and Jennings 1995; Mintzberg and Quinn 1996). In addition, these commentators have argued that growth is dependent upon the entrepreneur or owner-management team making a conscious decision to allow others to undertake operational tasks so that they, in turn, can concentrate of the strategic aspects of survival and growth (Mintzberg and Quinn 1996; Jennings and Beaver 1997).

9.4.2 Management Development and Strategic Decision-Making

This study also revealed that owner-managers of growth firms had introduced management practices that had influenced the subsequent strategic direction and scope of their respective firms. Practices such as management information systems were commonly cited by owner-managers as mechanisms by which the business could be managed remotely, allowing important data to flow into the decision-making forum. In the majority of cases, practices such as planning and control, financial reporting and marketing not only ensured that the vision and competencies of the firm were enhanced but also contributed to the decision-making process.

At the simplest level, these practices provided pertinent information on customer behaviour, staff ability, process efficiencies and financial and market performance. At more of an integrated level, this information combined with the preferences of the owner-management team, had led to the creation management practices and procedures aimed at building organisational routines that could be used to sustain and improve existing competitive advantages. Furthermore many owner-managers, in an attempt to overcome existing weaknesses, saw the addition of new management expertise as crucial. Thus, it was observed in the majority of cases that owner-managers of growth firms involved in this study were willing to delegate responsibility and trust in these actions to deliver relevant information to the decision-making process. Consequently, whilst owner-managers retained the ability to override the processes that had been introduced to enhance the decision-making process, many were unwilling to do so, due to a belief that there was an inherent need to develop management competencies outside the owner-management team. The willingness to release control however, was less evident in the family oriented and industrial services/construction firms. In these cases, owner-managers were generally unwilling to permit others to influence the decision-making process. This evidence seems to support the proposition that the personal aspirations of the entrepreneur can constrain management development (Bamberger 1983; Stevenson 1985; Kao 1989; Smallbone et al 1995; Jennings and Beaver 1997). Alternatively, this attitude to management development displayed by these owner-managers may in some way be related to the nature of their respective business environments and their perception of how their respective organisations should be structured and managed (Slevin and Covin 1990). Nonetheless, evidence from this study seems to further substantiate the proposition that the entrepreneurial filter proposed in Chapter five and developed in Section 9.1 has a significant effect upon management development.

The study also illustrated that the extent to which management practices impacted upon the strategic direction of growth firms was related to size. In this sense, owner-managers of larger firms were more likely to report that management practices and processes had a significant effect upon strategic decision-making. This observation seems to generally support the argument that larger firms have well developed and established routines that guide the strategic direction and scope of the organisation when compared to their smaller counterparts (Dyer 1997).

Previous studies have also maintained that whilst small firms usually lack the necessary systems to manage resources effectively, large firms are constrained by bureaucracy and tradition (Charan et al 1980; Dyer 1989, 1997). During the course of the study it was observed that despite organisational complexity many of the larger firms had taken steps to preserve entrepreneurship. In contrast, the majority of smaller firms had either started to or were looking to introduce management practices that enabled them to implement systems and procedures to ensure the effective allocation and development of resources. Owner-managers of several larger firms stated that they had made a conscious effort not to over complicate or 'politicise' the decision-making process. Instead, they reported that a coherent management information system in conjunction with certain organisational routines had been introduced to assist strategic choice and implementation. Furthermore, one owner-manager suggested that the building of organisational routines and introduction of key management practices should not be geared to preserving the best of the past. In other words, it was submitted that whilst the introduction of management is initially driven by the entrepreneur, subsequent success is determined by the extent to which management development promotes rational decision-making. Thus, the need for constructive conflict is created by allowing management to influence and guide the decisions of the entrepreneur or owner-management team (Eisenhardt and Schoonhoven 1990; Weinzimmer 1997; Chandler and Hanks 1998).

9.4.3 The Emergence of the Management Filter

This study has confirmed that there is an inherent need to develop an administrative framework to manage growth. Figure 9.4 illustrates how the management filter emerges in growth firms. In the initial stages of growth, smaller firms were looking to implement management practices that improved operational efficiency and provided the necessary time for owner-managers to consider the strategic future of their respective businesses. The increasing complexity associated with growth however, implies that the formalisation of key organisational routines and management practices are instrumental to subsequent growth. This research has highlighted that in the majority of cases, owner-managers of growth firms were willing to devolve responsibility and trust in the systems that they had established to facilitate growth. In circumstances where this was not observed, it was apparent that the entrepreneurial filter exerted a considerable influence upon management development. This was particularly evident in the industrial services/construction and family oriented firms involved in this study. Evidence from the study suggests that the introduction of management has two effects upon decision-making.

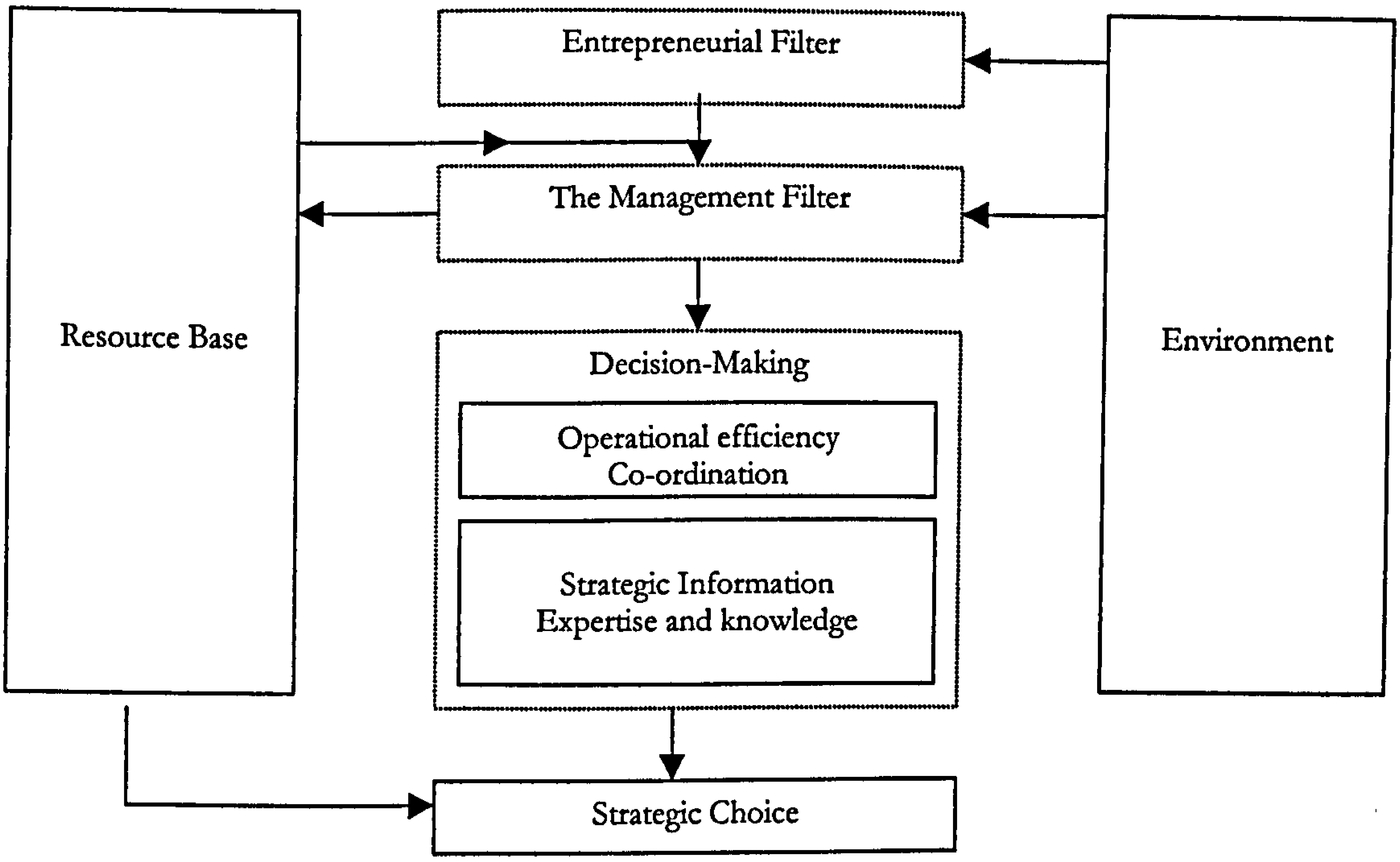

Figure 9.4: The Management Filter

Firstly, management practices and processes simply altered operational decision-making, releasing the entrepreneur or owner-management from ever-increasing workloads and operational burdens. Secondly, the introduction of management practices led to improved and more rational modes of decision-making. In this sense, owner-managers reported that systems such as financial management controls, marketing and additional expertise had enhanced their firms' capabilities and strategic awareness.

It is therefore reasonable to surmise that whilst management development is driven by the facets of the entrepreneurial filter and the need to manage firm growth, subsequent firm evolution is increasingly influenced by the management filter which emerges in response to organisational change. Nevertheless, the nature of the entrepreneurial filter provides that this process is shaped by the willingness of the entrepreneur or owner-management team to pursue further growth and introduce management practices that have the potential to shape the future of the firm.

9.5 Conclusion

This Chapter has analysed and interpreted the results of the group and semi-structured interviews and the main findings are summarised in Figure 9.5. It has been observed that the entrepreneurial filter developed in Chapter five of this thesis, consisting of a number of personality and experiential factors in conjunction with a wide range of external and internal factors, shapes strategic decision-making. This filter combined with the need to co-ordinate growth determines management practice adoption. The introduction of these practices and new layers of management are driven by three main factors. Firstly, the past experience and knowledge of the entrepreneur or owner-management team influences the adoption process. Secondly, the introduction of practices such as financial reporting, planning and control is led by the need to effectively manage growth and resource allocation. Finally, the desire to pursue further growth requires owner-managers to introduce new layers of management to facilitate management evolution and formalise reporting systems and procedures. These practices, combined with efforts to build organisational competencies and widen the knowledge base of the organisation, can become sources of sustained competitive advantage. The research also identifies how these management practices endowed the growth firms involved in this study with the ability to sustain competitive advantages.

In addition to the improved information that financial reporting, planning and control systems provided their firms, owner-managers reported that the routinisation of organisational systems created the necessary managerial and organisational slack to enhance and develop their firms, existing resource base. Furthermore, marketing practices such as competitor analysis, benchmarking and customer feedback are utilised to ensure that the value of firm strategies are continually reviewed and updated. Thus, the importance of building relationships with customers and constantly monitoring the environment cannot be understated. In this sense, it is argued that owner-managers involved in this study recognised the significance of maintaining and improving product and service quality. This awareness and the desire to introduce management practices that are capable of building competencies that cannot be easily imitated by competitors suggests that owner-managers of growth firms recognise the importance of establishing a sustainable competitive advantage. The formalisation of routines and procedures within the context of this research represented efforts by owner-management teams to instil routines with their experiences, knowledge and vision. This process combined with organisational learning and additional expertise indicates that management evolution and formalisation emerges from a unique historical development process.

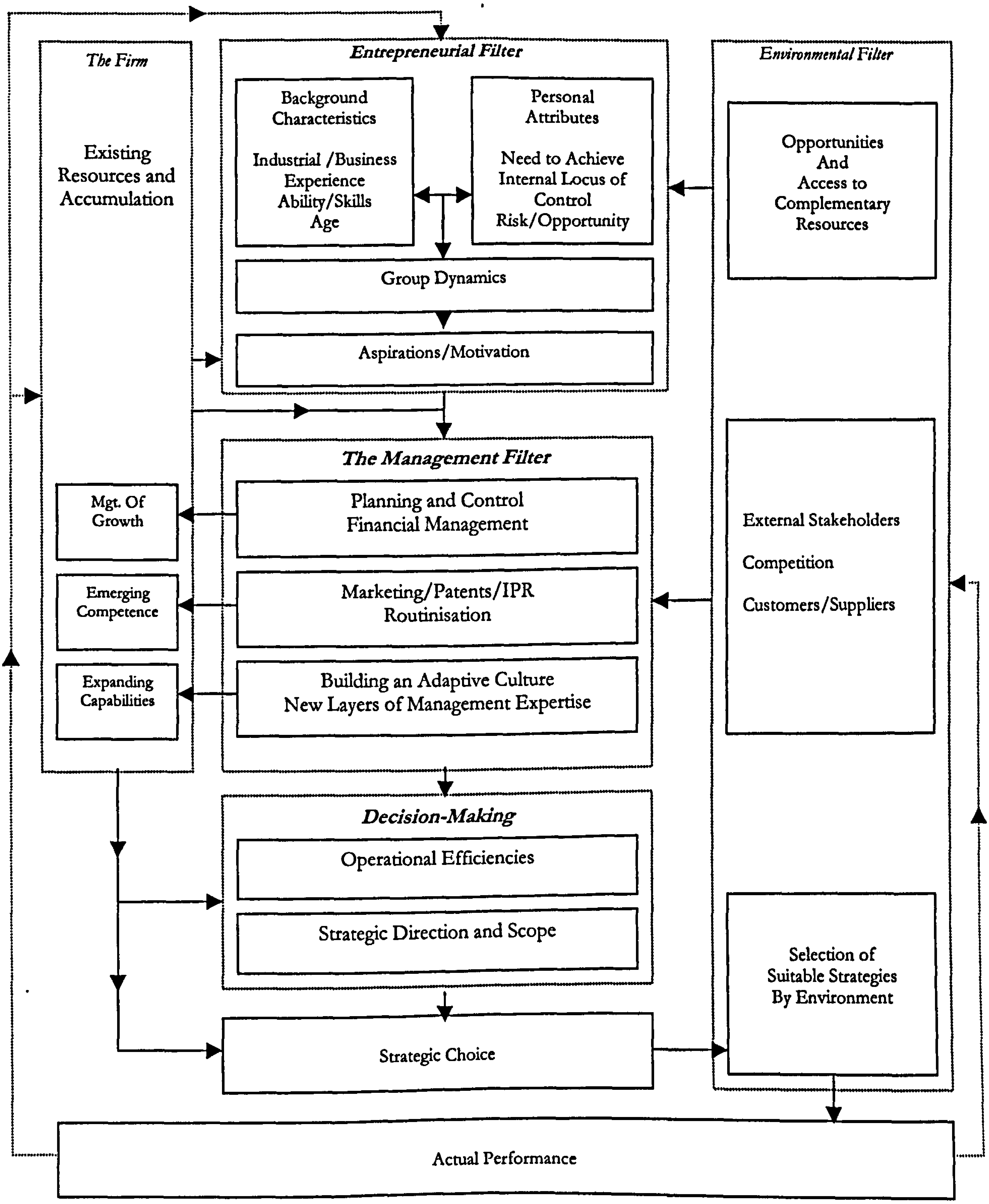

Figure 9.5 Management Development and The Entrepreneurial and Management Filter

The extent to which management practices shape the strategic direction and scope of the firm however, is determined by the willingness of the entrepreneur or owner-management team to delegate decision-making authority. It was observed throughout the study that family oriented and industrial services/construction firms were less likely to entertain the delegation of strategic decision-making. Moreover, in a number of cases the impact of management upon firm strategy was limited to providing pertinent information to the decision-making process. In other cases, management development had successfully introduced more rational modes of decision-making to reduce the inconsistencies associated with entrepreneurial perception. Nevertheless, it was evident that in the majority of cases firm growth leads to the development of a management filter that has an increasingly significant effect upon the strategic direction, scope and capabilities of a firm.

In summary, Figure 9.5 represents a theoretical framework of how and why growth firms adopt management practices. Throughout this thesis a conceptual framework has been proposed, empirically tested and developed, to understand the process of management adoption in relation to small business growth. Results from both the group and semi-structured interviews support the general proposition of this thesis that an entrepreneurial filter in response to external and internal factors drives management development. These management practices are introduced for a variety of reasons but can be divided into three broad classifications. Firstly, management practices that emerge due to the preferences and experience of the owner-management team, systems and procedures that are required to effectively manage the growth process and practices that are introduced to facilitate further expansion and evolution. Secondly, it was observed that certain practices had been utilised to maintain and enhance the competitive positions of firms involved in this study through the development of organisational competencies and capabilities. Finally, it was evident that the introduction of management practices by growth firms led to the emergence of a management filter that exerted an increasingly significant influence upon operational and strategic decision-making.

Chapter 10

Conclusion

Chapter 10: Conclusion

10.1 Research Summary

The ingredients of successful entrepreneurial activity have been the subject of a substantial amount of academic research and debate. In fact, the perceived importance of small business growth to wealth creation and economic prosperity has been one of the principal topics of the small business literature for the past three decades. The conventional model of economic growth places SMEs in an important but largely secondary role in an economy, supporting the activities of larger, more established firms. The realisation however, that fast growing firms are major contributors to economic prosperity has led to these firms being attributed with an increasingly central role in the development of wealth, innovation, employment and national competitiveness.

A plethora of literature exists regarding the phenomenon of small firm growth. Historically, small business growth has been approached from a wide range of theoretical perspectives. Whilst there is little doubt that these perspectives have added to our understanding of entrepreneurship and the factors that facilitate venture growth, firm heterogeneity, disciplinary bias and methodological inconsistencies have ensured that this comprehension remains largely context dependent. There are a wide range of factors that influence small business growth. It is maintained that small firms that experience growth often enjoy favourable market conditions or are able to exploit localised or niche markets. Previous quantitative research has used growth as a dependent variable and examined its relationship with a number of independent factors such as age, size, location, marketing orientation and exporting behaviour. These observations have led to the conclusion that these external variants can have an impact upon growth. Notwithstanding this fact, it is pertinent to note that only a small percentage of small firms achieve notable growth and that it is these firms that make a disproportionate contribution to wealth and employment creation. Thus, given that the majority of small firms remain relatively small despite the existence of favourable environmental conditions, it is reasonable to surmise that internal factors are significant determinants of small business growth.

This study was concerned with how and why certain management practices were adopted by small to medium sized growth firms. It is important to recognise that sectoral differences that occur throughout the UK could influence SME growth rates. To reduce this potential variance, it was decided that the research should restrict its analysis to a particular region of the UK. Due to particular circumstances, outlined in Chapter six it was decided that the study would have a Welsh context. Historically, Wales has experienced considerable success in securing inward investment but has recently realised the importance of a growth oriented indigenous small business sector as a means of improving economic prosperity. In fact, this research is the first study of its kind in Wales to investigate the phenomenon of small business growth from a management development perspective.

Previous research has usually opted for a more scientific approach to small business growth in an attempt to establish cause and effect relationships between a wide range of independent variables. Other studies have utilised matched sampling often concluding that there are significant differences between growth and non-growth ventures in terms of organisational structure, strategy and management. It was argued in Chapter six however, that a quantitative approach was unlikely to produce any meaningful interpretations of how and why growth firms adopt certain management practices. Instead, this thesis adopted a two stage exploratory qualitative methodology to examine the management adoption process in growth firms. Moreover, the use of an inductive methodological approach was also chosen to assist theoretical development.

This thesis has examined growth from a wide range of perspectives, but has paid particular attention to the influence exerted by the entrepreneur upon the adoption and implementation of management techniques and processes. Furthermore, this study has developed the concepts of the entrepreneurial filter and management filter as possible instruments by which the adoption of management practices and their subsequent affect upon strategic decision-making can be explored and explained. Despite the notable contribution made by existing literature, research has yet to adequately address how and why growth firms adopt management practices. Stage models of growth have surmised that the existence of management practices within an organisation often relate to a particular stage of growth. Nonetheless, the fact that the majority of small firms do not grow irrespective of the buoyancy of a particular market or region suggests that decisions made by the entrepreneur have a significant effect upon firm growth. In this sense, the research contends that entrepreneurial influence in terms of personality and background factors combined with previous experiences and competencies are instrumental to the management development process within the growing venture. In addition, this study has also examined the extent to which management practices adopted by growth firms were sources of competitive advantage. The theory of competitive advantage is deeply rooted in the resource based view of the firm, a perspective that has, in the past, drawn on large firm analysis in an attempt to trace how sources of competitive advantage have emerged. This study suggests that examining how sources of competitive advantage develop in emerging and growing ventures could also advance this theory. Finally, the research investigated how the management practices adopted by growth firms influenced subsequent decision-making and the future strategic direction and scope of growth firms.

10.2 Key Findings

Throughout this thesis a conceptual framework has been developed and refined[1]. From the collection and analysis of data concerning the management practice adoption and strategic decision-making in growth oriented firms it was evident that four main themes emerged which add to the existing body of knowledge on small business development. Firstly, this research has developed the concept of the entrepreneurial filter to explain the influences exerted on strategic decision-making in small firms. Secondly, this study has concluded that management development in small ventures is driven by three factors – namely the previous experience of owner-managers, the need to manage the growth process and an entrepreneurial desire to secure future growth. Thirdly, data collected provides empirical support for the notion that the adoption of certain management practices is directly linked to the maintenance and internalisation of a firm's competitive advantage. Finally, the research argues that the adoption of management practices in growth oriented firms leads to the emergence of a management filter which has an increasingly significant effect upon the strategic direction and scope of the small firm as it continues to grow. These findings are discussed below:

[1] Note: See Chapter 5, Sections 5.1.1, 5.1.2, 5.1.3 and Figure 5.1 for the initial development of the conceptual framework. Chapter 9 illustrates the refinement of the framework in response to results collected in both stages of the research.

10.2.1 The Entrepreneurial Filter

The research has posited that an entrepreneurial filter[2] essentially shapes the strategic direction and scope of the small firm. Evidence from the study supported the proposition that the personality and background characteristics of the owner-manager or entrepreneurial team have a significant impact upon the strategic direction, scope and development of growth firms. Previous work has attempted to identify if certain personality traits are related to small business growth. Research however, remains inconclusive due to the fact that entrepreneurial ability and motivation essentially mediate these traits. Nevertheless, this study through the development of a conceptual framework has revealed that whilst it is difficult to directly link the personal attributes of the entrepreneur or owner-management team to small business performance, it is possible to examine how certain characteristics influence strategic decision-making.

This research states that the need to achieve, an internal locus of control, the willingness to entertain risk and pursue opportunity are all traits that consistently influence decision-making. In addition to these personality traits, it was also observed that decision-making was also driven by the previous experience of the entrepreneur or owner-management team and a wide range of external and internal factors. Success however, could not be solely attributed to these factors and the research also confirmed that growth continues to be exogenously determined. Thus, this thesis contends that the theories of strategic choice and environmental determinism have a simultaneous role to play in determining small business growth. In this sense, it is argued that the extent to which entrepreneurial perception interprets the true nature of the environment can be viewed as a possible measure of entrepreneurial competence. This research, using existing literature and evidence from a number of qualitative interviews has constructed the entrepreneurial filter. This filter provides a theoretical framework that can be utilised to examine strategic decision-making in small ventures. Moreover, it is argued that the entrepreneurial filter combined with a number of internal and external influences provides a framework that can be consistently applied to strategic decision-making, small business growth and management development.

[2] Note: The initial development of the entrepreneurial filter is discussed in Chapter 5, (see p. 107) and is subsequently refined in Chapter 9, (see p. 256).

10.2.2 Rationales for Management Development in Growth Oriented Firms

This research was also concerned with how and why growth firms adopt certain management practices. Previous studies have reported that practices such as finance, marketing, planning and control are all positively correlated with growth. These studies however, do not explain why certain management practices are utilised by growth firms to maintain superior performance. This study revealed that the introduction of management practices is driven by three factors. Firstly, the development of management practices is shaped by the previous experience of the owner-manager or entrepreneurial team. Secondly, the complexities of growth and an expanding resource base prompt owner-managers to implement practices that can effectively manage the growth process. Finally, practices are introduced to facilitate further development and growth.

The significance of management and industrial experience of owner-managers to the adoption of management practices confirms the importance of the entrepreneurial filter as a key determinant of small business development. The importance of these preferences cannot be overstated, as it is these perceptions that ultimately decide the strategic direction and subsequent success of an emerging venture. Within the context of this research it was evident that the majority of owner-managers used their previous management and industrial experience to decide which management practices would support firm development. Furthermore, it was apparent that in the majority of cases, owner-managers of growth firms involved in this study had attempted to professionalise the management of their firms from inception. These observations re-establish the importance of the owner-manager to small business growth, adding weight to the argument that the analysis of growth cannot preclude the entrepreneur. The research found that the introduction of new layers of management combined with the implementation of a wide range of financial reporting, quality assurance, planning and control techniques had also been utilised to manage and facilitate the growth process. Throughout the study, it was observed that, irrespective of firm size, attempts had been made by owner-managers to formalise management practices. In this sense, it is submitted that this research does not align itself with the proposition that small business growth is dependent upon a transition from an entrepreneurially to professionally managed organisation. Instead, evidence suggested that growth oriented owner-managers possess a managerial awareness that drives them to formalise key processes and practices to enabled them to effectively manage growth and pursue new opportunities. In fact from the data collected in this study, it can be argued that the ability to effectively formalise business practices is a particular competence of the growth oriented owner-managers. Nonetheless, during the course of this study it was apparent that family oriented and industrial services/construction firms did not generally subscribe to the formalisation process. Moreover, whilst formalisation was evident in almost all the firms involved in this study, the degree of complexity was inevitably related to firm size.

10.2.3 Securing Competitive Advantage through Management Practice Adoption

Closely related to this theme of why management practices are adopted by growth oriented firms is the extent to which these management practices endow these firms with a sustainable competitive advantage. Simple models of firm growth constantly identify management as a significant barrier to growth, suggesting that the effective accumulation and allocation of resources determine the ability of the firm to sustain growth. The theoretical framework developed in this thesis argues that firm success is also dependent upon a firm establishing a relatively stronger strategic position in its chosen market in relation to its competitors. Thus, the research is the first of its kind in Wales to apply the principles of sustainable competitive advantage to management development in growth firms[3]. Evidence from this study suggests that management practices such as marketing and processes aimed at the protection of intellectual property rights and patents have been utilised by owner-managers to ensure long-term survival and growth. These practices in conjunction with quality assurance, planning and financial reporting have all been routinised and transformed into organisational routines that essentially provide a firm with the necessary competencies to maintain a particular advantage. This standardisation is subject to a unique development process that competitors often find hard to imitate. In addition, benchmarking, customer feedback and training continually update these competencies.

The research also discovered that the recruitment of additional management expertise and establishing an adaptive culture were viewed as possible mechanisms by which

[3] Note: The relevance of sustainable competitive advantage is an emerging research theme in the small business management and entrepreneurship arena (see Norton 1999). The principles of the resource based view of the firm and sustainable competitive advantage have also received increased attention in the strategy literature over the past two decades (see Foss 1996). To date however, studies concerning this perspective in the United Kingdom have been limited to large businesses.

growth firms could enhance their existing capabilities. This study has therefore successfully explored the significance of sustainable competitive advantage to growth firms and concluded that management development is linked to securing a superior market position.

Furthermore, the importance of training to these firms suggests that growth oriented owner-managers involved in this study recognised the significance of training to improving their existing capabilities. Efforts to augment existing competencies however, were less evident in this study and thus, the majority of owner-managers contended that they had tended to implement management practices that built competencies based on previous strategic success. Thus, practices such as marketing and the routinisation of key operations and procedures were viewed by participants as key tasks in the evolution of their firm's existing competence base. These contributions to the existing small business management literature suggests that future research should examine how small firms can achieve superior strategic positions by exploiting managerial competencies that endow them with the ability to sustain particular advantages.

10.2.4 The Emergence of the Management Filter

As a firm grows there is an inherent need to develop an administrative framework to manage an increasingly complex organisation. The complexity of growth implies that the co-ordination of key resources and the communication of strategic goals become increasingly difficult to manage. This thesis has posited that the introduction of management practices, systems and procedures lead to the emergence of a management filter[4]. This filter, like the entrepreneurial filter, influences decision-making at both an operational and strategic level. Evidence from the study generally supports this statement although it is pertinent to note that whilst the management filter ultimately has an increasing influence upon decision-making, its development is initially shaped by the entrepreneurial filter and resource accumulation. Thus, it is apparent that the significance of this filter to the strategic decision-making process is ultimately dependent upon the willingness of owner-managers to release control to new layers of management and trust in the practices they have implemented. As previously stated, the majority of

[4] Note: The initial development of the management filter is discussed in Chapter 5, (see p. 107) and is subsequently refined in Chapter 9, (see p. 281).

growth oriented firms already possessed a professional management outlook and were always looking to formalise certain practices and processes. The management filter developed by this study influences decision-making in two ways. In the initial stages of growth, the management filter is utilised by owner-managers to improve operational efficiency and release the necessary time for them to consider the strategic future of the firm. The increasing complexity associated with growth and resource accumulation however, prompted many owner-managers involved in this study to formalise key organisational routines and management practices. At this point, the majority of these owner-managers were willing to accept a certain level of devolved responsibility and trust in the systems that they had implemented in order to run the business remotely. The formalisation of these processes combined with new layers of management and expertise, such as the introduction of non-executive directors, also led to more rational modes of decision-making. In this sense, the research argues that emerging competencies and additional management expertise change the nature of the decision-making process, allowing firms to make more balanced decisions. Moreover, this emerging managerial competence suggests that this process alters entrepreneurial perception and assists further management development. Nevertheless, the nature of the entrepreneurial filter developed in this thesis also ensures that management development is dependent upon the entrepreneur's or owner-management team's commitment to this process. In other words, continued growth is determined by the willingness of owner-managers to introduce management practices that have the potential to shape the future direction and scope of their firm.

Overall, this study has developed a theoretical framework that can be consistently applied to management development in growth firms. Within this framework, the research has proposed that an entrepreneurial filter in conjunction with a wide range of internal and external factors shapes the strategic direction and scope of the firm. In addition, this filter drives management development that is implemented to manage the growth process, build sources of competitive advantage and facilitate further expansion. This process leads to the emergence of a management filter, which has an ever-increasing influence upon the firm in terms of strategic decision-making and firm direction.

10.3 Research Implications

The findings of this study have led to a number of practical and policy related implications. These can be sub-divided into the following three categories:

10.3.1 Implications for Policy Makers

It is reported that Wales currently has a dearth of indigenous businesses that have the ability to grow (Welsh Office, Pathway to Prosperity 1998; National Assembly for Wales, Betterwales.com: A Strategic Plan 2000). Despite this study's focus upon management development and sustainable competitive advantage at firm level, data collected over the duration of the research suggests that policy makers should continue to concentrate upon growth oriented businesses. From the data collected during the second stage of the study, it was evident that the 31 firms interviewed had increased aggregate turnover by over £57 million and created 657 jobs. This contribution to national and regional economies cannot be overstated. Public policy has, in the past, tended to look towards inward investment to stimulate wealth and employment creation in stagnant or declining regional economies. Historically, Wales has achieved considerable success in securing inward investment, but has recently experienced a number of job losses as a result of inward investment companies downsizing or relocating production. This trend combined with the evidence from this study implies that policy makers will secure a more stable economic future for Wales if they target and support businesses that have the potential to grow ambitiously. In this sense, it is argued that an adequate infrastructure that supports growth oriented businesses could help create an indigenous firm base capable of sustaining economic development. In addition, given that growth and survival are inter-related (Storey 1994; Burns and Harrison 1996), initiatives that encourage firms to pursue growth could reduce the overall volatility of the small business sector in the Principality.

This study has identified a number of successful Welsh businesses that have enjoyed sustained success. This success was not only attributed to exploiting a particular opportunity with a quality product or service, but a willingness to pursue and manage the growth process through the introduction of key management practices. It can therefore be argued that if Welsh businesses are to secure success there is a distinct need for a support structure that takes the key findings of this research into account. Thus, it is argued that attempts should be made to implement programmes that disseminate the importance of management practice adoption to small business development and support firms wishing to implement new management practices and processes. Furthermore, these initiatives must enable the firm to discover how management practices and processes can be utilised to build and sustain a competitive advantage. Consequently, there is a need for policy makers to review existing support programmes and introduce measures that will enable growth oriented firms to receive the right levels of support.

Throughout the study, it was observed that the majority of firms used quality and service to differentiate themselves from the competition. It was evident however, that these initial advantages were continually supported by management practices and processes that improved delivery. Thus, it can be argued that initiatives that attempt to strengthen the viability of emerging ventures should concentrate their efforts on developing management practices and procedures that can sustain competitive advantage. This study indicated that growth oriented firms recognise the importance of marketing, financial management, quality control and planning to facilitating growth. This implies that initiatives should continue to offer this support to the small business sector. Emerging competencies and dynamic capabilities however, are often firm specific. Consequently, it is also necessary for support programmes to offer 'tailor-made' solutions that take into account the uniqueness and idiosyncrasies of organisational development. Historically, support has tended to concentrate upon delivering functional management practices that have been developed in large firms. This research suggests that whilst growth firms utilise some of these practices, management practices in growing ventures need to assist the management of growth and build competencies that strengthen the overall competitive position of the firm. Thus, programmes designed to facilitate growth must realise that it is no longer sufficient to simply deliver generic management training to growth oriented firms. Instead, an effort must be made to provide growing ventures with the necessary skills and knowledge to use management to secure long-term survival and growth. In addition, it is imperative that any such initiatives need to be transparent in terms of the benefits to be gained by small firms from undertaking these forms of support. From the data collected it was also apparent that a number of owner-mangers had looked to expertise outside the firm or created non-executive director positions within their companies to improve decision-making. This evidence suggests that programmes which utilise the knowledge of experienced business mentors may offer support to existing small firms unable to acquire the necessary management expertise to facilitate further growth.

10.3.2 Implications for Education

This study states that owner-managers of growth oriented firms continue to have difficulty in recruiting the necessary small business management expertise. Given that 90% of all businesses in Wales currently employ less than 25 people (Welsh Office, Pathway to Prosperity 1998) it is evident that, for these small firms to survive and prosper, higher education institutions in Wales must respond to these demands. Thus, with entrepreneurship becoming an increasingly viable option for new graduates, higher education institutions must also look at current delivery methods and ensure that the management skills and knowledge they impart to graduates can be used effectively in a small business environment. Furthermore, given that the majority of owner-managers in this study advocated the need to delegate and involve others in the decision-making process, support programmes and education should look at initiatives that can develop these competencies.

It has also been argued that the extent to which an entrepreneur or owner-management team can interpret the true nature of the environment may represent a particular strategic competence. Elements of this competence however, can be developed in others and training initiatives that allow individuals to competently use analytical environmental frameworks could provide the small business owners of tomorrow with an increased awareness of how certain factors impact upon the strategic direction, scope and performance of their firm. In addition, this ability could also be developed further through contemporary education initiatives. In this sense, it is argued that whilst existing programmes impart the necessary knowledge to students in terms of strategic evaluation, greater efforts should be made to develop decision-making skills. Uncertainty is a common characteristic of most business environments and in order to make a contribution to the economy, individuals that either decide to start a new venture or work in a small business environment must have the ability to make decisions despite the existence of this uncertainty. By developing this competence, education can better prepare potential growth oriented entrepreneurs for the inherent challenges of small business growth. In fact, initiatives that can develop and improve these competencies could help Wales develop a prosperous small business sector which is characterised by growth, innovation and wealth creation instead of high rates of business failure.

This research has provided a generic framework that can be consistently applied to the strategic decision-making and management adoption processes in growth firms, irrespective of size or industrial classification. Through the examination of the management adoption process in growing ventures, this study has developed a framework that not only looks at why management practices are adopted by growth firms but also explains how these practices emerge. The framework therefore aims to understand and rationalise the adoption of management practices by growth firms. As a result, this framework combined with further research can be utilised to develop a more 'user-friendly' model that can be utilised by academics and policy makers alike to examine the management adoption process and whether a small firm has the potential to achieve long term growth. It is envisaged that the resultant model will be similar to the models developed by Kim and Mauborgne (2000) in identifying successful business ideas. Moreover, the model will also seek to ascertain whether the implementation of specific practices and processes can assist the management of growth and engender sustainable competitive advantage.

10.3.3 Implications for Growth Oriented Firms

This study also has a number of implications for growth oriented firms. Firstly, the research through the development and refinement of a conceptual framework allows owner-managers to understand how management practices and the introduction of new layers of management influence the strategic decision-making process. The framework also illustrates the impact of various internal and external influences upon the decision-making process. The identification of these key influences upon the strategic decision-making process and management practice adoption essentially enables owner-managers to understand the sources of potential organisational conflict and how certain management practices offer practical solutions to these problems as their firm realises growth.

Secondly, the research illustrates that the majority of owner-managers involved in this study have utilised management practices to assist the growth process. Whilst there are notable differences in the practices used between industrial sectors and firm size, the study highlights the importance of enhancing the knowledge base of the firm, financial control, marketing and building an adaptive culture to facilitate small business growth. In addition, evidence from the data collected posits that owner-managers wishing to pursue further growth must understand the source of their competitive advantage and look at ways of maintaining and improving this advantage through management development and the creation of key organisational routines.

Finally, from the implications discussed above for both policy makers and academics the research emphasises the importance of working closely with the small business sector to ensure that growth oriented firms are adequately supported and nurtured so that they can reach their full potential. Underpinning the above recommendations of suggested improvements to existing support measures is the need for programmes to provide real tangible benefits for growth oriented firms. In this sense, it is argued that support for these firms should be measurable by way of its ability to meet the expectations of owner-managers seeking external assistance. Only when the needs of small business owner-managers are harmonised with the range of support initiatives available to small growth firms will policy makers in Wales begin to reap the benefits of this support provision in terms of economic prosperity and creating an indigenous small business sector that has the potential to grow ambitiously.

10.4 Limitations and the Need for Further Investigation

The exploratory nature of this study means that it is difficult to generalise these finding outside the boundaries of the research context[5]. The research adopted techniques to improve the validity of the study but despite these efforts this research lacks the generalisability afforded any quantitative analysis of this phenomenon. This limitation implies that further investigation is required. Firstly, the framework developed needs to be tested sectorally. It is argued that regional and industrial variances should be examined further. Consequently, the framework needs to be developed and tested in other regions of the UK and across a wide range of industrial sectors. For example, this study constantly noted that firms in the industrial services/construction classification and those firms categorised as being 'family orientated' responded differently to the range of questions asked. It is therefore reasonable to surmise that these sectors require further

[5] Note: See Chapter 6, sections 6.3 and 6.4.

investigation to explain these variances. In addition, it must be acknowledged that male owner-managers dominated the interview sample. Whilst, no particular gender differences were recorded, it is pertinent to note that previous studies have contended that female entrepreneurs respond to different internal and external factors and therefore, this could also prove to be an interesting line of further enquiry.

The use of multiple-sites also limited the depth of the data collected and although the research did generate a number of key findings, its ability to fully understand the entrepreneurial decision-making process in relation to management development requires further examination. Thus, the use of longitudinal data and the tracking of management development would also help improve the robustness of the framework developed in this study. In this sense, it is submitted that in-depth case studies need to be conducted at various points on a firm's development curve to fully comprehend the nature of the decision-making process in the growing small venture. In addition, this study has concentrated its focus on growth firms that have had a three year record of continuous growth. Further research should also make a comparison between growth and non-growth firms in order to discover if there are any fundamental differences in the entrepreneurial and management filter. This additional research will assist academics and policy makers in determining why certain firms are unable to grow and may also explain business failure.

Overall, it is imperative that the theoretical framework is continually updated and methods developed to enable generalisations to be formed from further qualitative and quantitative investigation of how decision variables influence management development and growth. Moreover, this study relied heavily upon the interpretations of participants in terms of factors that influenced decision-making. Consequently, whilst previous commentators have justified the validity of self-assessed competence (Chandler and Hanks 1994), there is also a need to develop more objective measures of performance and management adoption to assist theory development. It is therefore argued that the use of a combination of qualitative and quantitative techniques will help identify these relationships and test whether statistical relationships exist between certain decision-making variables and management evolution. Furthermore, these methods of exploration and scientific testing will ultimately generate a robust theory of how the adoption of certain management practices assists firm growth and development.

Appendices

Semi-Structured Interviews – Company Profiles

Note: All profiles have been altered to protect the identity of participating firms. Number denotes rank in Wales Fast Growth Fifty 1999. All profiles appeared in the Wales Fast Growth Fifty Supplement (1999) published by the Western Mail.

1: Plastics Ltd

Plastics Ltd is synonymous with fast growth in Wales, with activities ranging from the manufacturing the world's first non-spill toddler cup (with international sales in excess of 100,000 units per week) to leading the market in the manufacture and design of top quality hardwood, softwood and uPVC conservatories, windows and doors.

Based in Cardiff, the company is essentially an amalgamation of four subsidiary companies – The first was established to exploit intellectual property rights for new and innovative products, and its most successful brand to date is the world's first non-spill toddler drinking cup - The X Cup™ - that was awarded Millennium Product status by the Design Council in July 1998. The X Cup™ is sold in all leading supermarkets, nursery retailers and pharmacies throughout the UK and has European distribution via MAPA in Germany as well as international distribution agreements as far a field as Australia and the Far East.

The second produces a wide range of quality nursery products under the 'X' brand name whilst the third provides on-site respraying of shop fronts of major multiples and retailers and other commercial premises throughout the UK. This subsidiary has also recently won a contract to coat the skins and canopies of Amsterdam's International Airport retail lounge and media centre extension. On the other hand, the fourth provides the sale, design, manufacture and installation of top quality conservatories, doors and windows.

The success of Plastics Ltd has meant that the group has seen its turnover grow from just under £400,000 in 1996 to a staggering £3.8 million in 1998. This year the group estimates further sales growth towards somewhere in the region of £8.5 million. The group now employs over 100 people, all drawn from the local community and is committed to sustained growth through a continued investment into quality. At present all companies of the group hold the ISO 9002 accreditation.

2: Rig Ltd

Rig Ltd is a design and engineering consultancy in the offshore oil and gas sector. The firm was founded in 1993 and is located in Chepstow on the Welsh/English border, employing 30 highly skilled people. Rig Ltd is an innovative firm and is committed to creating and developing some of the world's revolutionary breakthroughs in technology for the offshore and sub-sea engineering industry. The company is recognised as the market leader in automated unmanned sophisticated buoy systems and is currently carrying out development work for some of the largest gas and oil producers in the world.

The growth of the firm has been assisted by the support of both the Welsh Office and the Welsh Development Agency and the innovations produced by Rig Ltd can be seen anywhere from the shores of North Wales to those of Northwest Australia. The firm is also committed to an environmentally aware design approach in all of its innovations, and has achieved the quality standard ISO 9001. During the last three years, turnover has increased by a staggering 523% from £250,000 in 1996 to over £1.5 million in 1998.

3: Laser Ltd

Founded in 1989, Laser Ltd is based in Abertillery and employs 21 staff. The firm is currently recognised as a world leader in the field of low power lasers and laser technology. This status has been essentially achieved over the past four years by applying a simple philosophy – Commitment to Quality. Regardless of whether it is the design and construction of products, the application of the company's technical expertise or in the dedication with which it serves the needs of its customers, a commitment to quality is paramount. In order to maintain its place at the forefront of an ever changing and competitive market, the firm operates a policy of continuous product and application development. The company's engineers are experienced in the laser technology field and often work side by side with customers in numerous and diverse areas ranging from the demands of military, government and scientific applications to automotive, sports and leisure. Recent developments include the introduction of a new 'track-to-train' technology that has been successfully tested on problematic applications involving communications between a station platform and an approaching train.

Laser technology is one of today's fast growing and developing industry's and whilst Laser Ltd continues to expand it product range and customer base it is its unswerving commitment to quality that is considered to be integral to its sustained success.

4: Food Ltd

Food Ltd has recently been described as 'a real success story' by Welsh Secretary, Alun Michael. The firm was established in 1994 and produces pre-packed Chinese and Oriental meals for Sainsburys. The company now employs 120 people and is planning to create a further sixty jobs by opening a new £600,000 amenity block incorporating a state of the art test kitchen, restaurant and increased office and training facilities at its Swansea based factory.

Its commitment to value and authenticity has enabled it become sole supplier of some 26 products to Sainsburys and the firm constantly seeks to produce and develop exciting authentic dishes through its new test kitchen and new product development departments. Food Ltd obtains the majority of its raw materials from South Wales suppliers and continues to contribute to the prosperity of the region. In 1998, Sainsbury's Prawn Laksa (produced by Ethnic Cuisine) was presented with the top award at the 1998 SuperMarketing Quality Food and Drinks Award and is further testament to the firm's commitment to quality and authenticity.

Since its inception, Food Ltd has experienced considerable growth and now has an annual turnover of nearly £10 million. Despite this achievement, the company continues to look for opportunities to expand and is currently contemplating further expansion to dramatically increase its existing production capabilities.

5. Crane Ltd

Crane Ltd was formed in April 1994 by the purchase of assets of X Engineering, this company having gone into receivership in August 1993. A consortium of managers, employees and customers of the former company raised the funding of the purchase.

The Group now has over 110 employees and a turnover of £8 million for the last financial year. Group activities incorporate the design, manufacture and installation of equipment for the steel industry, including electric overhead travelling cranes and upgrade of container cranes for ports around the World.

Since then, the new business has gone from strength to strength, purchasing the assets of X UK and X Ltd in 1996. At this time, X UK became a division of Crane Ltd whilst X Ltd became the manufacturing division of the group. This has enabled Crane Ltd's capabilities to be augmented by X Ltd's ISO 9001 accreditation, as well as its experienced workforce of machinists, fabricators, welders and electricians. Currently, this part of the company designs and manufactures aero-engine test facilities and other equipment for the aerospace and defence sectors. During 1998, a new company – Crane Ltd Waterford – was formed and offices established to enable the group to carry out work in Ireland. Despite these changes, Crane Ltd continues to operate and develop their own markets.

6. Design and Print Ltd

Design and Print Ltd was founded in 1953 in Swansea as a traditional printing firm. The original owner and his family eventually sold the business in 1993 and in 1995 the new management team decided to relocate the business in a new unit at the Darcy Business Park adjacent to Junction 43 of the M4. Design and Print's activities can best be described as a provider of design and print solutions to companies and organisations in South Wales and the firm prides itself on its ability to offer single source solutions to its customers. The company has an entirely self contained design studio with five experienced designers using state of the art technology whilst the print and print finishing unit is manned by highly skilled craftsmen who are capable of meeting even the most challenging of deadlines.

Design and Print Ltd has recognised the importance of customer service to a growing business and its customer service department not only offer a rapid response to items such as estimates and quotations but also utilises Email and ISDN transmissions send customer designs and advertisements digitally to vendors and publications both in the UK and across the globe.

Design and Print's major achievement over the past five years has been to successfully manage the changeover from a small family run business to becoming one of the leading providers of design and print services in South Wales. The company attribute its success and growth to its employees, a willingness to re-invest profits back into the company and emphasising the importance of accurate and prompt communication with customers. The firm was accredited with ISO 9901 in 1991 and has recently appointed two new directors and hopes that this additions can add to recent successes such as the design of a new logo for Swansea RFC and the maintenance of the club's website.

7. Pump Ltd

Pump Ltd was formed in 1993 and started trading in 1994 as vacuum engineers. The company utilised its design experience and developed a high vacuum air conveying suction unit in 1995. The Hyper-Vac, which is used for the recovery of difficult materials from inaccessible locations and so, the contracting division was born. The company's mechanical engineering arm builds and develops specialist equipment for the contracting division and also fabricates and installs steelwork and process equipment for the water, petrochemical and manufacturing industries. The company has several R&D projects underway at present, which have worldwide potential within the mining, tunnelling and petrochemical business. From the original start-up situation of four people, the business currently employs thirty at the base in Tenby and services clients throughout Wales and the UK. Further growth will be achieved this year with anticipated staffing levels of 40.

8. Network Ltd

Established in 1985, Network Ltd is a national network of professional organisations who carry out investment business. Originally trading under the name of X as a firm of independent financial advisers, the firm quickly recognised the need for a intermediary firm between the financial services practitioner and the regulatory body in order to provide a service to help other financial advisers to satisfy regulatory requirements.

This new slide line eventually turned into the core business activity of the firm and as a result the company was renamed Network Ltd in 1991. Based in Trefforest, with network members all over Wales and England, the company specialises in compliance and the monitoring of financial services business and regulations. Vital Training and on-going support is provided to individuals to ensure that firms meet the requirements of the Financial Services Act in order that they can effectively conduct investment related business.

The success of these firms can largely be accredited to the highly professional yet personalised service offered by Network Ltd that has allowed many of them to achieve a variety of industry standard awards such as BSO 5750, ISO 9001 and EN 29001.

Increasingly tougher industry regulations in general have forced many financial services practitioners to seek help through an intermediary firm such as Network Ltd in order to be able to satisfy the regulatory requirements and therefore helping to grow the network at a phenomenal rate. Consequently, the company has not only enjoyed considerable sales growth but also seen its employee base grow from 5 staff in 1994 to 30 employees in 1999. Whilst growth has been dramatic, the firm has ensured that organisational growth was carefully managed and that the core philosophy and competitive edge of personalised customer service has not been jeopardised.

10: Phone Ltd

Founded five years ago in Gwent, Phone Ltd supplies telecommunications products and services, offering products such as mobile phones, two-way radios, photocopiers and fax machines to the commercial and consumer markets. The company currently operates from eight offices in Wales with its headquarters being located in Abergavenny. The founder and current managing director is a local entrepreneur who quickly realised the marketing potential of mobile communications. The entrepreneurial flair of the managing director is supported by an experienced Sales Director, who has considerable experience of sales management in the communications industry.

The development of Phone Ltd has been entirely self-financed and profits have been constantly re-invested in order to sustain growth. The firm has also utilised support from local support agencies and is committed to maintaining its position of Wales' premier independent communications company. Phone Ltd is continuing to pursue expansion strategies and forecasts already suggest that sales revenue for 1999 will exceed £1 million.

11 : Independent Ltd

Established in 1973, Independent Ltd is an independent financial adviser providing a comprehensive financial and investment service to over 6,000 clients nationwide. Based North Wales, the company is registered independent firm with the Personal Investment Authority (PIA). With a turnover fast approaching £1 million, the company has experienced rapid growth in the past three years and it is estimated that sales revenue for 1999 will be somewhere in the region of £1.8 million. Independent Ltd's success is based upon the efficient provision of strategic and proactive advice in both investment and mortgage matters. It provides a personal and proficient service, with a network of trained and experienced advisers that can interpret the specific needs of individuals. Employee expertise enables clients to make informed choices concerning pensions, investments and mortgage related matters.

The company now has 39 employees, including management, advisers and administration support staff. All employees are subject to an ongoing training programme to ensure that they are familiar with the core activities of the business. Ongoing investment into employee development is matched by the company's commitment to state of the art technology. These initiatives are considered to be integral to the firm's continued growth and have enabled Independent Ltd to seek new markets in the 'new build' mortgage market.

12. HR Consulting

HR Consulting is committed to maintaining the highest levels of performance, confidentiality, respect and care, bringing practical recommendations and solutions to HR development for its extensive customer base. Established in 1995, the Newport based company offers a comprehensive consultancy service in key HR management areas such as selection, business psychology, training and development.

HR Consulting employs 10 dedicated and experienced staffs who are all committed to maintaining the firm's customer driven philosophy. It is this depth of knowledge and experience that enables the company to work closely with clients and provide a wide spectrum of services to enhance efficiency, productivity and HR development.

The majority of the firm's activities are concentrated in Wales although it has on occasion had the opportunity to work with company in the West of England. Notable customers include Bosch, Warner Lambert, LG and First Plus (part of the Woolwich Building Society group). Insight HR Consulting are also accredited to the Institute of Personnel Development (IPD), the British Psychological Society, ISO 9001 and the Investor in People (IiP) standard.

This reputation for quality has seen the company being nominated as one of the finalists in the Small Business of the Year Award sponsored by the Western Mail and ensures that HR Consulting are building a firm foundation from which it can sustain its current growth and success.

14. Recruitment Ltd

Recruitment Ltd was founded in 1992 and has since established itself as Wales' largest independent recruitment and training company. Its success and continued growth is based on the philosophy of supplying local industries and businesses with high calibre temporary and permanent staff quickly and efficiently. The company applies intense interviewing and vetting procedures whilst its highly experienced and professional staff ensure that applicant data is accurate before it is submitted to the firm's advanced technology systems that holds the details of thousands of applicants covering all the major employment sectors. Since the company's inception, the company has grown into a multi-branch, 60+ employee organisation with a head office in Newport and a network of seven branches covering South Wales.

Enthusiastic support teams Recruitment Ltd's dedicated managers and recruitment consultants in order to deliver a comprehensive recruitment and training package. Major investments within the training sector has enabled the firm to create a training services division which is capable of delivering quality training programmes and associated services. The company is a member of the Federation of Recruitment and Employment Services (FRES), recognised as an ISO 9002 organisation and currently runs Investors in People (IIP) programme. The company is determined to sustain its success and has recently secured the sole agency contract for British Airways Avionics Engineering based in Llantrisant to add to its already enviable client list of major corporations and blue chip organisation based in the South Wales region.

16: Accounting Ltd

The current directors established Accounting Ltd in 1995 to provide professional consultancy services in the areas of information technology and business computer systems. The company specialises in computerised financial and management accounting systems, namely Access Accounts, which enables all types of organisations to successfully embrace Windows based technology. Accounting Ltd is a premier Access dealer and one of only twelve valued added Access Client Server and Dimensions re-sellers in the UK. This accreditation is only achieved by companies that meet the highest levels of technical competence and information technology knowledge.

The firm's headquarters are based in Cardiff but the company also has offices in Bristol and Exeter to accommodate its expanding customer base. Accounting Ltd is able to provide solutions to its clients in a variety of environments including Windows 95, Windows NT, Novell and Apple. The firm's activities include project management, system implementation consultancy, historical accounting data conversion and third party software training and the company is committed to maximising the return on their client's investment. This dedication has enabled Accounting Ltd to forge excellent business relationships with over 100 public and private sector clients in local, domestic and international markets.

The company continues to experience growth and estimates that turnover for the current financial year will exceed the £¾million mark. The firm currently employs 10 people but it expects its staffing levels to increase in line with sales revenue and its ever-growing customer base.

18: Sandwich Ltd

Sandwich Ltd is a Cwmbran based manufacturer that produces fillings for approximately 14.5 million sandwiches per annum. Established in 1990, the firm offers a wide range of fillings from tuna mayonnaise to Peking duck. Recent successes of Sandwich Ltd include the introduction of Welsh Gold filling in 1998 to commemorate St David's Day and its subsidiary firm, Shelly's food being presented with the most innovative sandwich award from the British Sandwich Association.

20: Consultancy Ltd

Consultancy Ltd is an Abergavenny based organisation that specialises in helping its clients in both the manufacturing and service sectors enhance efficiency and profitability. The company believes that it was one of the pioneers of the 'one stop shop' philosophy, offering a wide range of skills from its own employees to the skills of an extensive network of associated organisations.

Unlike conventional consultancy, Consultancy Ltd has adopted a 'hands-on approach' to its services, preferring to work closely with its customers to identify weaknesses and provide the necessary skill gap resources to achieve continued business development. This approach was enabled the firm to establish an ongoing synergy with its clients and has been instrumental to the company's success. Consultancy Ltd services include the improvement of shop floor and office productivity, improvements of manufacturing methods, the implementation of management and quality systems such as TQM, ISO 9000 and Investors in People.

The company is a listed practice with the British Accreditation Bureau and is registered to ISO 9001 with the British Standards Institution. The firm is happy to work with companies of all sizes and its reputation of being able to consistently reduce the costs of its customers whilst demonstrating productivity improvements in the region of 25% has significantly contributed to its sustained growth.

21: Timber Ltd

Three owner-managers all abandoned relatively secure employment in 1993 to establish Timber Ltd Ltd as an independent timber importer and supplier venture. Since its inception, Timber Ltd Ltd has seen it sales soar from £1.7 million in its first 12 months of trading to over £10 million by the end of the 1998 financial year.

The company has built its reputation within a 200-mile radius of its Newport headquarters in South Wales. It provides a 24-hour service delivery service to merchant and end user customers, such as furniture manufacturers and shop fitters throughout Wales, the Midlands and the South West of England. The relocation to Newport from Abercarn in 1995 provided the firm with 18,000ft of undercover warehousing and additional outdoor storage offers a valuable insight into the growth orientation of the company and the founders determination to succeed. The move to Newport enabled the firm to recruit experienced and skilled sales staff and hold a substantial amount of product that were crucial to sustaining its aggressive marketing and sales-led strategies.

The company has been formally recognised for its considerable success in South Wales and has picked up a number of notable local business awards including Young Entrepreneurs of the Year in 1993/1994 and Gwent TEC's award for the best emerging business venture in 1995. In fact, the future seems to be bright for Timber Ltd. The three directors are expecting the company to sustain its growth through offering a high level of quality, integrity and value to its customers and by developing its existing domestic and export trade.

22: Office Ltd

Office Ltd was originally known as X Ltd – a company formed by the Office Chairman and his partner during 1975. Following the sale of the Abacus name in 1994 to Alco Standard of America, the company was renamed Office Ltd. At the time of the sale, owner-manager's son joined the company and together they have completely restructured the business, changing its focus and introducing a complete new product range. This carefully selected range of products is on display at the firm's new 11,000 sq ft. Cardiff showrooms. The firm specialises in all aspects of office furniture, from Boardroom Executive ranges to simple workstation and operator chairs, together with refurbishment works which include partitioning, ceiling, carpet, decoration and storage systems. To compliment these specialised services, the firm also has their own in-house design, planning, installation and service teams.

The directors emphasise the need to ensure that its professional team is experienced in servicing supplying and that office furnishings are integrated into many business environments. However, they have not forgotten their duties to the community and have, since 1975, been constantly involved with many activities outside of the normal business sphere. Office Ltd has also formed strong alliances with a select number of producers to allow the strength of the firm to be linked directly with formidable world-class manufacturers.

23: Finance Ltd

Finance Ltd was originally the consultancy division of the international chartered accountant X. In 1979, the firm achieved independence and since then has specialised in all areas of lending – secured, unsecured, consumer, corporate - and offers business solutions for direct finance, retail credit and vehicle finance operations. The Finance Group changed its trading name in 1997 to Finance Ltd to accurately reflect the nature of its business.

The firm is dedicated to meeting the needs of the finance sector and its accountancy background is a significant factor in its understanding of the industry. The loyalty and commitment of its staff remains to be the backbone of the company. Moreover, its continuous investment into new techniques in the development of advanced systems for blue chip financial institutions in the UK and Europe offer rewarding challenges to its highly skilled employees. Finance Ltd is an associate member of the Finance & Leasing Association (FLA) and as the company continues to expand its knowledge base it actively encourages its employees to gain accreditation to the FLA or sit other credit industry specific examinations.

The company employees over 100 staff between its headquarters in Cardiff and its Bristol office and remains committed to its long term objective of sustainable growth over the past decade and successfully increased its product range, sales, profits and productive capacity. It now enjoys an established client base of over thirty of the major financial institutions in the UK and Europe.

24: Computer Ltd

Computer Ltd has already begun to establish its reputation as both a specialised assembly firm for corporate customers as well as a firm supplying quality home computers and computer systems for small businesses. Founded in 1989, the company emerged from the garage of the managing director's home and now employs 20 dedicated and experienced staff.

With the growth of the computer manufacturing business, Computer Ltd is now considered synonymous with high quality reliable computer systems and dedicated support and maintenance. The firm supplies many Welsh local authorities and major companies in Wales with stand alone PCs or fully integrated computer networks. Sustained growth forced the company to upgrade to larger premises, and its current location on the Vale Business Park Cowbridge is an ideal location affording access to all major business centres in South Wales.

The company has built its success on its commitment to customer service and is able to meet the specific requirements of clients. The firm enjoys strong partnerships with its suppliers and offers a broad range of additional services such as the provision of electronic notebooks, upgrades and printers. The company continues to establish its reputation for high quality and customer service and whilst it is still considered to be a small company in comparison to the national computer giants, Computer Ltd Ltd is currently one of the largest computer manufacturers in Wales.

25 : Pate Ltd

The owner-manager founded the Pate Ltd in 1983 with an investment of £9 from her housekeeping. The primary product of the company is pate. Originally, the pate produced by the firm was sold to a local restaurateur but after the proprietor decided to produce in-house, the owner-manager was quick to seek other customers and soon afterwards the business flourished. As the business grew so did the demands on its home base and it was soon realised that new premises were required if the business was to meet its full potential. After careful consideration the company moved to Ruthin, North Wales. The company has now been at the same site for nine years although it has since expanded its operations to meet production requirements. In the past three years the firm has enjoyed sales growth of nearly 80% and turnover is fast approaching £1 million. This growth has been achieved through inward investment and the company's commitment to marketing and offering the market a quality product.

Pate Ltd supplies independent retailers, hotels, restaurants and breweries and is currently looking to develop business opportunities in Ireland and through the Internet. The firm continues to receive consultative support from the Welsh Development Agency, Welsh Food Promotions and Clwydfro Enterprise Agency. In 1995, the owner-manager was awarded the title 'Welsh Woman of The Year- Small Business Owner' and last year she was one of the finalists for the European Woman Entrepreneur of the Year. The company remains committed to Wales and hopes to expand its production capabilities further in the next 12 months to meet ever-increasing demand.

28: Media

Media is a niche public relations and marketing agency, servicing clients within the telecoms, data networking, computing and Internet industries. Since being established in 1992, the company has quickly matured from a sole trader operation to that of a small company with evolving management teams that have enabled the firm to entertain and sustain growth. The growth of the company has not occurred merely by chance and the firm has ensured, with the assistance of the Welsh Office and local TECs, that the long term business plan of Media has been realised.

The company's success stems from its comprehensive technical knowledge, its sound public relations and marketing expertise and the commitment of its workforce. The firm's core services centre around the provision of public relations and marketing support to customers, enabling them to communicate their products and services through a wide range of media. The company utilises its Internet expertise to assist Welsh companies who wish to establish a presence on the Internet despite the fact that, at present, the majority of its clients reside outside the principality. The company continues to pursue its business objectives but is aware that sustained growth will become increasingly dependent upon the development of solid systems and procedures, the personal development of its staff and a continued commitment to its customers.

29: Contractor Ltd

Contractor Ltd is a leading chartered building company that was founded in 1977. Over the years, the company has established a reputation for providing an efficient contracting service throughout South Wales and the South West of England for commercial, retail, industrial and residential projects. The company has an extensive client base including major industrialists, developers and government authorities and its commitment to quality and customer satisfaction results in over 50% of its business being attributed to repeat orders. Moreover, the firm prides itself on its expertise and its ability to introduce flair and innovation to building solutions. Contractor Ltd benefits from a multi-disciplined team of experienced and dedicated staff and this, coupled with the company's flexible attitude to contracting, enables the firm to present quality completed buildings within agreed specifications, timescales and costs.

The company continues to grow and its success has allowed the firm to recently establish a sister company in Bristol to service the South West of England. In the past 12 months, Contractor's order book has grown by securing a wide range of contracts ranging from contacts in the motor industry, industrial and commercial projects throughout South Wales and several assisting the re-development of Cardiff Bay. Furthermore, investment in Information Technology, quality management systems and new long-term relationships with firms like X (UK) Ltd will ensure that Contractor is able to maintain its competitive position well into the new Millennium

30: Insulation Ltd

Insulation Ltd was established in 1986 and has enjoyed steady growth to its present position by exercising strict levels of control and an experienced management team. The firm has successfully achieved accreditation to BS EN ISO 9002 (1994) Quality Assurance Standard which has enabled it to secure a significant share of the market and an impressive client base, including major building contractors, local authorities and national government bodies.

A lot of Insulation Ltd's success stems from the fact that the majority of its employees have a long association with the industry having worked for major national companies such as Cape Contracts, Kitson's Insulation and Chieftain Insulation. This experience ensures that the company is able to confidently guarantee good quality workmanship and contractual control that is expected of a major contractor within the industry.

Currently the company provides a wide range of structural and passive protection and dry lining services, including fire/smoke barriers, partitioning, asbestos removal and a variety of board encasements. Insulation Ltd continues to operate successfully in a turbulent industry and its experience, expert knowledge, tight control of overhead costs and competitive quotations not only offers considerable advantages to its clients but also ensures that the company is in a good position to sustain its success.

35: Training Ltd

Training Ltd has enjoyed notable success during the past ten years, and is currently the largest independent supplier of computer training and consultancy company in South Wales. The firm's current customer base is impressive, ranging from large organisations like British Steel and the Welsh Development Agency to thousands of Small and Medium Enterprises throughout the region. The firm specialises in customised IT training and consultancy services, mainly through PC related software including Microsoft, Lotus and Internet related products and has the added advantage of being able to augment its own capabilities through its close ties with Swansea University. Training Ltd has work closely with the University of Wales Swansea, which holds a minority interest in the firm, on important community driven programmes. For example, Training has offered computer based training to 2,000 unemployed people in order to help accelerate their return to the work place through the acquisition of valuable IT skills.

Over the last eighteen months, Training Ltd has sustained its success, securing against national competition an on-going contract with the DVLA to oversee the national retraining of its staff throughout the UK. It was also recognised as the Western Mail Small Business of the Year in 1999 and won the South Wales Evening Post Small Business of the Year Award in 1998. Despite these notable achievements, Training Ltd is committed to further improvement and the firm expects to exceed £1m turnover in 1999 with plans to introduce a variety of new services to augment its current activities and sustain growth.

36: Garden Partnership

Garden Partnership is a family-run business, selling garden machinery and sundries, sewing machines and craft items, which was founded, in 1986, by the owner-managers, a husband and wife partnership. The business concept was originally borne out of the owner-manager's interest in knitting. However, an investment in a knitting machine coupled with the owner-manager's farming contacts ensured that orders for jumpers and cardigans started to escalate. The business was initially operated from the family home but, in addition to the manufacture of garments, the couple quickly realised an opportunity to expand into mail order in order to sell stock across the country.

The first shop was open on the Capel Hendre Industrial Estate near Ammanford although in the formative years of trading, shop hours were limited to mornings only so that the owner-manager could devote more of a time to her children. Despite this limitation, the business flourished and the couple were able to employ one member of staff to help meet demand. After two years the business moved to Cross Hands Business Park near Llanelli into larger premises with greater accessibility. In 1989, the owner-manager made the decision to leave his employer and dedicate his time to running the family business. Soon afterwards his employer ceased trading and the owner-manager seized the opportunity to buy up stock and take on four of his colleagues from his previous employer. The company continued to prosper and in 1992, purchased an acre of land in order to erect a purpose built building to accommodate all facets of the business. Half of the unit was devoted to garden machinery whilst the other half sold sewing machines, knitting and craft items. This strategy enabled the firm to maintain a healthy cashflow despite the seasonal nature of its products.

Since this time Garden Partnership' has managed to sustain its growth and over the years the craft business has been extended and a training facility has been built to facilitate twice weekly craft workshops. The business also boasts a coffee shop and the store now stocks and sells patio furniture, barbecues and accessories. The partnership continues to be forward thinking and is constantly evaluating its product range to ensure sustained growth and prosperity.

37. Medical Supplies

Medical Supplies was established in 1986 by the owner-manager to supply general medical practitioners with a wide range of medical products including vaccines, coils, diaphragms, surgery equipment, diagnostic tests and instruments. The company was originally based in Kent but transferred its head office, administrative, purchasing and central warehouse functions to South Wales in 1992.

The firm operates a catalogue mail order service to the medical profession, producing its main catalogue annually and mailing it out to over 12,000 GP practices. This is supplemented by three special offer catalogues that are mailed out to over 36,000 general practitioners and 7,000 practice managers throughout the United Kingdom. In addition, special offer leaflets are produced monthly and included with all statements and packages sent out from the company's Welsh and English sites. The main catalogue currently contains over 5,000 different product lines covering approximately 20,000 different items and Medical Supplies continually reviews its services, seeking to constantly update its product lines and supply sources to meet the ever changing needs of its customers.

In January 1996, the company established a subsidiary company. This firm offers a range of low priced branded products to provide practitioners with an alternative source of supply. More recently, another company was incorporated into the Medical Supplies group. This subsidiary essentially imports medical products in order to supply the retail trade. Moreover, in 1997 the Doctor X name was purchased at the end of 1997 to widen the services of the group and afford the company additional marketing and retail strength. This operation is currently operated through the group's Leeds office.

Medical Supplies remains committed to customer service and growth and has recently purchased the X Centre in South Wales to an attempt to further invest and develop its office and warehouse facilitates. Furthermore, the company continues to invest in the updating of its comprehensive computer and communication systems to ensure that it can offer its customers a quick, informative and effective service.

38: Engineers Ltd

Engineers Ltd was founded in 1992 by X and X, welcoming X as an associate partner in 1994. The firm offers a comprehensive service with technical expertise in the design of highways, surface water drainage schemes, sewerage and sewerage treatment, process waste disposal, student accommodation and major refurbishment schemes, emphasising the importance of maintaining effective site management. Since its inception, the company has enjoyed steady growth and now employs 18 people.

The firm has undertaken a variety of civil and structural engineering projects in both the private and public sector ranging from simple house extensions to large industrial and commercial complexes. All projects, whether small or large, are given the same attention to detail and every endeavour is made to assist the clients, other members of the design team and contractor to ensure effective and efficient project completion. The company continues to strive for success and over the years has gained experience in the re-development of town and city centres. It is currently working on a £40 million project to construct a 200 bed hotel in Cardiff centre in readiness for the 1999 Rugby World Cup.

40: Electrical Ltd

Electrical Ltd was founded in 1984 to essentially provide quality electrical installation services. Over the years the company's reputation and subsequent growth has enabled it to establish larger premises in Cardiff, moved its manufacturing unit to Bridgend and opened new offices in Guildford, Surrey.

The firm now employs 90 people and utilises its staff's experience and knowledge to provide total solutions for its ever-expanding customer base. The firm's extensive list of customer's include NTL, Sony, Hitachi, Panasonic and British Steel and it provides a wide range of installation services to clients throughout Wales, the UK, Europe and India. More recently, the company was awarded a prestigious contract to undertake security installation work at Kensington Palace.

Throughout the last fifteen years the company has achieved steady growth, based on its philosophy of optimal solutions, commitment to keeping pace with technology and dedication to customer satisfaction. In fact, in 1999, Electrical can be found firmly placed in the UK's top 500 companies. The company remains committed to providing its customers with a reliable and professional service and ensuring that employee skills are constantly updated through training and development. The firm is also financially sound and well managed and these assurances help the company to maintain its reputation and build long term meaningful relationships with its customer base.

44 : Hotel Partnership

When the X family bought the Hotel Partnership in 1992, it was in a poor and run down condition. Turnover at the 16 bedroomed property was less than £200,000 per annum and only six permanent staff were employed. This year turnover, is fast approaching £1 million and the hotel now employs 35 people. A £¾ million refurbishment has successfully transformed the personality of the hotel, bedrooms have been added and remodelled with striking designs and colour schemes and the introduction of a bistro-style restaurant has proved to be a considerable success. The hotel currently enjoys occupancy rates of above 70% and a buoyant restaurant trade, which ensures that the new bistro attracts a busy lunchtime trade and is fully booked every evening.

This achievement cannot only be attributed to the X family's commitment to excellence and clearly defined business objectives but also to the efforts of the hotel's staff. In fact, the adoption of a fair staffing policy coupled with above average rates of pay and excellent working conditions have enabled the X family to build up a faithful and committed workforce with almost zero staff turnover in key positions.

The hotel's attractive and friendly atmosphere and its accessibility to all parts of South Wales ensures that it attracts healthy mix of clientele, ranging from business people to tourists wishing to explore the Brecon Beacons National Park. The hotel continues to attract considerable attention and it has recently been awarded the AA's Welsh Hotel of The Year 1998/9 and has been included in the hotel industry's prestigious journal, 'Caterer and Hotelkeeper' since 1995. However, the X family, is keen to meet new challenges and are currently looking to develop a new hotel in the South Wales area and add to the success of the Hotel Partnership.

49: Disaster Ltd

Disaster Ltd was founded by a Cardiff Pharmacist in the 1890s to sample, analyse and certify the quality of coal cargoes being exported from South Wales to the rest of the world. Today, having traded successfully for more than a century, the company continues to sample and analyse coal but has diversified its activities considerably as it has grown. The firm now employs 75 people, the majority of whom are highly qualified in scientific or technical disciplines.

Disaster Ltd have offices in Cardiff, London, Houston and Singapore and its main activities include insurance claim investigation as well as nautical and metallurgical consultancy. In particular, the company has an international reputation for the handling and investigation of incidents and claims, and clients include insurance companies, P & I clubs, oil majors, ship owners, investment bankers, solicitors and loss adjusters. More recently, the firm's subsidiary - X Ltd - pioneered a bio-technical system, 'X', to counter the multi-billion pound illegal trade in counterfeit goods and industrial theft. This innovation has now been successfully tested and will soon be offered to museums, galleries and the insurance industry and will prove to invaluable to the police in the identification of recoveries.

50: Pet Food Ltd.

Pet Food Ltd was established as a partnership and incorporated in March 1982. The business was formed by the owner-manager to import and distribute canned pet food. The company occupied a 750 square foot rented industrial unit at Lampeter Industrial Estate. The company specialised in purchasing canned products from the major manufacturers in the UK and Europe, and the products are sold under the company's own labels.
To complement the canned pet foods, the company decided to produce and sell a range of dried pet foods, and in 1983, the company started to produce its own dried dog foods in bulk quantities which were sold mainly through agricultural co-operatives and

independent merchants throughout Wales. In the intervening years, the range has been developed to include other premium quality formulas. In 1990. The company purchased a farm at Pencader, from which operations (both canned and dry) now take place. In 1998, the company commissioned a new pet food extrusion plant in West Wales at a cost of £1 million, and the company currently has 36000 sq. ft of storage and production space at the farm with additional storage/packing facilities of 28000 sq. ft scheduled to be built in mid 1999. This will bring the total investment to date at the site to over £2 million. In 1999, the company launched a new premium range of extruded under the brand 'X' – a name that will be readily familiar to most Welsh people. The packaging for X dog foods is bilingual, as is the majority of the company's packaging as the owner-manager places great emphasis on this. The company currently employs 38 full-time staff that will be increased to 50 by the end of 1999.

Wales Fast Growth Fifty 1999 – Company Details

Company	Business Activity	Location	1998 Sales (£ 000s)	% Growth Rate	CAGR %	Founded	No. of Employees
1	Product marketer/Manufacturer	Cardiff	3865	923.60%	219.76%	1988	105
2	Engineering/design consultants	Chepstow	1540	529.40%	150.71%	1993	30
3	Laser Manufacturer	Abertillery	1693	212.30%	76.74%	1989	21
4	Meals Manufacturer	Swansea	9893	204.60%	74.52%	1994	250
5	Engineering Services	Cardiff	7917	199.10%	72.94%	1994	110
6	Duplicating/copying Services	Neath	383	188.00%	69.70%	1953	20
7	Industrial services	Tenby	560	186.30%	69.03%	1993	22
8	Financial Advisers	Pontypridd	4754	185.30%	68.92%	1985	30
9	Timber/farm suppliers	Llandovery	874	179.30%	67.10%	1993	13
10	Telecommunications	Abergavenny	289	176.70%	66.70%	1994	12
11	Financial advisors	Rhyl	912	176.30%	66.24%	1973	25
12	HRM Consultancy	Newport	437	169.00%	64.24%	1995	10
13	Thermal barrier coatings	Newport	1624	145.20%	56.63%	1995	28
14	Recruitment services	Newport	8358	141.50%	55.40%	1992	65
15	Plastic packaging manufacturer	Crumlin	6148	132.20%	52.37%	1993	23
16	Computer services	Cardiff	496	129.00%	51.54%	1995	10
17	Industrial Coatings	Llandrindod Wells	290	124.70%	49.94%	1995	11
18	Food manufacturer	Cwmbran	4630	116.70%	47.23%	1990	70
19	Electrical engineering	Cardiff	7100	108.70%	44.44%	1987	110
20	Management consultancy	Abergavenny	1833	107.30%	44.00%	1968	10
21	Timber importers	Caldicot	10160	103.00%	42.48%	1993	10
22	Office furnishers	Cardiff	1973	83.30%	35.41%	1997	20
23	Financial consultants	Cardiff	6443	82.80%	35.20%	1979	130
24	Computer manufacturer	Cowbridge	2651	82.30%	34.98%	1989	25
25	Pate manufacturer	Ruthin	902	79.10%	33.91%	1983	25
26	Car retailer	Kidwelly	31316	76.70%	32.93%	1932	69
27	Retailer	Cardiff	135789	71.80%	31.09%	1882	3600
28	Public relations/marketing	Chepstow	528	70.10%	30.51%	1992	10
29	Construction	Cardiff	12285	67.90%	29.57%	1977	48
30	Insulating Contractor	Port Talbot	1471	66.90%	29.22%	1986	30
31	Landscape and civil engineering	Cardiff	711	66.30%	28.89%	1992	20
32	Marketing and promotion	Cardiff	951	61.90%	27.17%	1991	18
33	Car retailers	Newcastle Emlyn	15479	61.70%	27.16%	1985	70
34	Retail refurbishers	Rogerstone	16398	59.20%	26.17%	1920	140

Company	Business Activity	Location	1998 Sales (£ 000s)	% Growth Rate	CAGR %	Founded	No. of Employees
35	Computer training	Swansea	989	59.10%	26.20%	1988	30
36	Garden machinery suppliers	Llanelli	1036	56.10%	25.00%	1986	22
37	Medical equipment supplier	Rhymney	15754	55.30%	24.61%	1986	62
38	Civil engineering consultants	Cardiff	737	55.00%	24.43%	1992	14
39	Childrenswear manufacturer	Bala	11919	44.40%	20.17%	1962	120
40	Electrical contractors	Cardiff	3311	42.00%	19.16%	1984	69
41	Commercial vehicle retailer	Cardiff	14553	41.00%	18.76%	1986	78
42	Semi-conductor manufacturer	Cardiff	8101	38.80%	17.82%	1988	97
43	Pharmaceuticals	Wrexham	23985	37.00%	17.06%	1993	354
44	Hoteliers	Merthyr Tydfil	831	36.60%	16.91%	1992	35
45	Insurance brokers	Cardiff	567	35.50%	16.47%	1992	14
46	Frozen food wholesalers	Pembroke Dock	1631	33.80%	15.67%	1989	12
47	Flooring tile importer	Monmouth	1702	33.40%	15.49%	1990	12
48	Food manufacturer	Aberystwyth	2262	33.10%	15.39%	1984	42
49	Chemical analysts	Cardiff	3978	32.80%	15.25%	1890	75
50	Pet food manufacturer	Pencader	3495	31.60%	15.70%	1982	38

Original List Compiled by Gary Packham and Professor Dylan Jones-Evans, Welsh Enterprise Institute, University of Glamorgan Business School, Published in the Western Mail June 1999.

Semi-Structured Interview Guide

Interviewer Instructions

The Welsh Enterprise Institute at the University of Glamorgan's Business School is currently undertaking a comprehensive study of fast growth firms in Wales. The aim of this interview is to establish how a firm determines strategic direction and how growth has affected the internal development of the firm.

The interviewee should be conducted with a current and active owner manager or CEO of the firm. The interview should take no longer than 2 hours. The interview sheet is divided into 6 sections and there is a planned duration for each segment.

Tape 1 (60-90 minutes)

Section 1 : Firm Overview - It is important that this section is completed quickly. The questions are structured to illicit quick responses from the owner-manager(s) on general firm related information.

Section 2 : Firm Ownership - It is conceivable that only one owner manager will be in attendance. Nevertheless, the questions are designed to identify the key characteristics of the top management team.

Section 3 : Firm Development and Growth - Section A is a quick response section that is divided into several categories. The section also attempts to examine how firms assess their own performance. Section B seeks to examine the development and growth of the firm in greater depth with particular reference to structure, management, resource base, capabilities and competitive position.

Tape 2 (60-90 minutes)

Section 4 : Decision Making - This section investigates the strategic decision making process in the firm. In particular how decisions are made, what influences the process and how certain decisions are instrumental to perceived competitive advantage.

Section 5 : Strategy/management - This section follows on from decision making looking to identify key success factors, the ease at which firms can acquire/develop these factors and what factors are particular to the firm. This section also examines the introduction of management practices and how these have strengthened the competitive position of the firm.

Section 6 : Entrepreneurship - This section is included primarily to identify what is understood by the term entrepreneurship and the ease at which firm's can attach this label to themselves. In the event that time is short this section can be sacrificed and recorded manually.

Keywords :

Top management team - owner manager(s), founders, CEO
Strategic decision making - Firm direction, what activities the firm participates in, how it competes
Competitive advantage - sources of superior performance not easily imitated by competitors
Key success factors - attributes which are central to survival and success within a market/industry
Management practices - use respondent definition.

Prepared by Gary Packham, Project Manager

Section 1. General Firm Overview -Planned duration 15-20 minutes
In this section stress that you are looking for brief, succinct responses

What is the main purpose of the firm?
i.e. what are its mission/objectives

What are the main activities of the firm?

What markets do you compete in?

What is your estimated market share?

To what extent does your firm have an established customer base?

What do you see as your competitive advantage?

Section 2. Firm Ownership - Planned duration 20-30 minutes
In this section you asking the owner-manager(s) to provide you with a brief life history of the firm's top management team.

What layers of management exist within the firm?
Prompt : owner, TMT, senior managers, functional managers

What do you consider to be the important characteristics of yourself and your top management team?
Prompt : Motivation, attitude to risk, perception of the environment, control, education, business experience, skills, knowledge.

Why did you start/buy this business? If more, than one owner, why did you set up in business together?

What are your aspirations for the future? How will you ensure you meet these objectives?

Section 3. Development/Growth - Planned duration 25-35 minutes

In section A stress that you are looking for brief, succinct responses.

Section A

How successful is your company against

(a) meeting its objectives?

(b) meeting the personal ambitions/goals of the founder(s)/owner-manager(s)?

(c) your main competitors?

What indicators do you utilise to assess company success?

Prompt : increase in turnover, profits, employment, market share, personal satisfaction

With reference to the above what have been the main successes of the firm?

Section B

How has growth affected your firm in terms of;

(a) changes in organisational structure, management and leadership?

(b) the resource base/capabilities of the firm

Prompt : finance, technology, skills, knowledge, competences

(c) perceptions of your business environment?

(d) attitudes to risk, innovation and strategic decision making?

(e) the competitive position of the firm?

What have been the main barriers to the firm achieving further success?

Prompt : use areas listed above

**** End of Tape One****

Section 4. Decision-making - Planned duration 25-35 minutes

This section is arranged to examine key decisions that have facilitated the growth process.

Who makes the decisions that concern the strategic direction of the firm?

To what extent do the various levels of management contribute to the strategic decision making process?

How are key strategic decisions made? Describe this process
Prompt : pursuit of opportunity, timescale, growth aspirations.

What factors influence strategic decision-making?
Prompt :top management characteristics/aspirations, resources, past experience, information, instinct, consensus, need to meet objectives, customers, competitors, employees, suppliers, legal issues

How has this process changed as the firm has grown?
Prompt : management change, objectives, resources, experiences, customers, competitors, suppliers, legal issues

To what extent are decisions constrained by existing resources?
Probe : Tangible/intangible resources, staff, management, skills, competences

What measures are used to overcome these obstacles?

What key decisions have been instrumental to firm growth and establishing competitive advantage? Why?

Have there been any decisions you could have made to further the success of the firm?
Probe : Growth/Non Growth related

Why did you choose not to implement these decisions?

Section 5. Strategy/Management - Planned duration 30-35 minutes

Which of the following statements best describes your strategic orientation?

'we are driven by our perception of opportunity'
'we are driven by resources currently controlled'

Why? Please state your justification.

What do you consider to be the key success factors of your market/industry

How far has your company gone to securing these attributes?

To what extent are these attributes easy to secure?
Prompt : historical development, costly, ambiguity, complex

How many of the key success factors you have described, specific to your firm? Please explain why these factors are specific to your firm?

What processes are required to successfully develop these firm specific factors
Prompt : knowledge, skills, competences, systems, networks, technology, finance

Of these firm specific attributes which do you consider to be sources of competitive advantage for your firm? Why?
Prompt : How are these factors rare, valuable, can not be easily imitated or replaced, costly, complex processes, context specific

As your company has grown what management practices/processes have you

(a) introduced?

(b) introduced <u>specifically</u> to ensure that you maintain your competitive advantage?

How have the introduction of these practices determined the future strategic direction and development of the firm?

What other measures have you implemented to ensure that your competitive position has been sustained?
Prompt : training, patents, investment in technology and/or resources, recruitment, new systems and processes

Section 6. Entrepreneurship - Planned duration - 5 minutes

In this section you are looking for brief, instinctive responses from participants

What do you understand by the term Entrepreneurship?

Given this understanding, to what extent to you consider your firm to be entrepreneurial?

**** End of Tape two****

Thank you for your time and co-operation

Example of Full Transcript

Transcript : Computer Ltd. – A.N. Owner-manager
Date : 15th December 1999
Time : 09:00 - 11:00
Location : Computer Ltd, South Wales.
Interviewer : Gary Packham
Tape Length : Tape One – 51 minutes, Tape Two - 48 minutes Total time : 99 minutes

Section 1 : General Firm Overview

GP :What is the main purpose of the firm?
O-M On a business level the company is a manufacturer of file servers, supplier of technical services in the South Wales area. We concentrate on the South Wales area because we feel that we can respond to quickest to give them the support they need and give them a service that establishes our reputation to service their needs and that is why we currently constrain ourselves to the area.

GP :What are the main activities of the firm?
O-M : Main activities are server and computer manufacture, supplies i.e. peripheral support, on site repairs, complete on site services, in the process of expanding into bar code scanning and video conferencing, industrial networks.
GP : You say your market is South Wales, who are your main customers i.e. corporation/blue chip companies. What markets do you compete in?
O-M : Yes, NHS, local government, doctor surgeries (biggest markets), corporates in particular office divisions, GE is one example. First quarter of 2000, we see the need to target the SME market, there the ones that require more support, they require hand holding and a service that will supply servers and machines to them.
GP: will the SME market be a particular market, a service orientated market?
O-M : Yes, the package that we will be giving to them will be a total service rather than them just getting a PC from somewhere else and just being able to switch it on we will lead them, hold their hands and support them.

GP : What is your estimated market share?
O-M : in the geographical area, South Wales and it population as it is which is probably concentrated within a 30 mile radius I would say about 15% if we're lucky, probably less.
GP : Is this market expanding?
O-M : absolutely, its expanding, especially in the market we have yet to tap, the SME market, that size, when I see SME I mean medium sized businesses.
GP : so those employing more than 50 people, 100 people?
O-M : Yeah, any company employing more than about 30 people but it would depend upon the industry with contractors having 50 staff and one computer so you know....
GP : Yes

GP : To what extent does your firm have an established customer base?
O-M : Well we've been going 10 years, and the customer base we had 10 years ago is still our best customer base now.
GP : Expanding?
O-M : Oh, yes are growth is a year on year. If we look at our top 20 customers, our top customer has been with us since the beginning we haven't lost any customers and thus with new customers mainly by recommendation, word of mouth we have grown.

GP : What do you see as your competitive advantage?

O-M : yes, I think it is because we have concentrated on one area, South Wales and one main thing that is providing good service to people that the key thing, I mean there always somebody who be able to do something for a few quid less than you but eventually if you give good quality service, people will know that they can rely on you or if you do charge a few pounds more they tend to come to us and say this is the option we've got and we have a choice of whether to take the business or turn the business down.
GP : so you will turn business down, with that competitive advantage in mind?
O-M : Yes, if it not worth doing, its not profitable then there's no benefit, to the customer as we can't give them the warranty they require on these sort of things, I mean there all sorts of companies offering deals on PCs and things, offering silly warranties in local government markets and really its a joke. WE don't do that we offer what is practical.

Section 2. Firm Ownership
GP : What layers of management exist within the firm?
O-M : Yeah, I'm the managing director of the company, I have a general manager who's original responsibility was production service and everything but since I've added another layer of management his role has become more specialised into sales and he concentrates on making sure the sales side of the company is going OK because that where his strengths lie but his title is still general manager and when I'm not here he is the boss. Underneath him we have a production manager , well production and logistics and he is responsible for the production of the PCs, its not a technical job, its a management job so he's responsible for making sure that the quantity and testing are right and the logistics of it all, deliveries for customer get out in time and that all his department and he responsible for the accounts there on a management level. We've got a service manager, managing the filed service engineers making sure the customers get the service, are responded to in time, he has a target he must hit, response times etc., repairs which he must hit every month, any fault logged must be responded to within four hours and the fix must be effectively completed within an hour of the engineer arriving on site. He's also responsible for base repairs, people bringing machines to the factory. We have our technical department, there qualified guys, Microsoft MSEs, Novel CNEs
GP : Oh, highly trained, they're specialist courses aren't they
O-M : Yes, we're constantly training these guys and bringing them on, we have a Microsoft MSE Internet now. They also work hand in hand with the service department but the service manager if you like are not above them but he's the managerial person and they're the more technical side, they go to him for organisational issues.
GP : By the way, how many staff do you currently have?
O-M : 23
GP : so the management is responsible only for a small group of people.
O-M : I think that I try and make it so that no person controls anymore than four to five people as I feel that that is the number that you can realistically hope to manage effectively.
GP : based on what you've just said I making an assumption that most of your training is conducted outside the company
O-M : Yes
GP : are there any plans to bring this training in-house
O-M : Well we do some training in-house, what we do is we tend to bring in school leavers or people that are relatively young and we start them on the production bench
GP : so from the bottom
O-M : yeah, they build PCs from the start, which is purely an assembly job and they do an NVQ course, and the NVQ follows them throughout the company, they then go on to set up, where they learn to install set-up programs and if then they show the right aptitude and skills, after about four to five years we move them out in to the field, as service engineers, well junior technicians, then service engineers, customer engineers and then if they are good enough they move to the technical

support department and we give them the opportunity to train as MSEs and CNEs to give them the support so that we continue to grow the company.
GP : is this particular to your company?
O-M : yeah, bringing our own guys through and training them the way we want them to be trained rather than how they think they should be trained

GP :What do you consider to be the important characteristics of yourself and your top management team?
O-M : well the company is small enough to change direction if it needs to quickly, we monitor the trends, very closely, we have noticed that some of the local authorities and corporate's are looking seriously at large US computer manufacturers, we don't know why this is but its not competitive, they're not competitively priced, they don't offer better service but nevertheless this is the trend. We are able to take on this trends and respond to them the best way that we can, proving to our existing customers that we can beat these competitors on price, and servicing hands down, that not really even an issue and as they are trying to move into our markets, with very aggressive marketing tactics, we are flexible and can always move, change direction in to other areas
GP : so there's a flexibility there
O-M : absolutely, because I think once you become big and unwieldy like they are, they can only go after specific markets they can't....they have to look for the same type of market elsewhere while we can keep looking and changing.
GP : Is your management team like-minded? Do they come from the same background
O-M : Yes, they do, the general manager is from a computer dealership, locally based which closed down when there wasn't enough margin if you like PC manufacturers supplied dealers who supplied end users but there isn't the market there now like the 1980s and that has a similar mindset to me. The other senior management, not really, the guy who runs the logistics is not from a computer background, he is from traditional South Wales business background, understands the people, the way it works down here, what people look for and we have moulded him and he picked it up really quickly
GP : do you think the differences in the management team has helped or hindered your business, brought extra qualities to the business.
O-M : Yes, the computer industry is still a relatively new industry and the traditions have yet to be established, whereas people from other backgrounds come from industries that are steeped in tradition and they are able to bring a little bit of this know-how to the business when they join, we have a lady who has recently joined the company from the civil service, and she has brought different expertise to the firm, expertise we didn't have
GP : administration?
O-M : yeah, tremendous organisation skills, paperwork
GP : frustrating in a way...at first?
O-M : at first, I tended to ignore them but I've realised the benefits , they are skills that have been developed over hundred of years in the case of the civil service, they are brought in to an entrepreneurial company, like we are and they help to establish some rules
GP : you said you have competitors coming into the market and you are wanting to continue to grow the business, so could we say you are motivated to succeed?
O-M : definitely
GP : all of you?
O-M : we are always have regular meetings and it is a free for all, anyone can say what they like, call me what they like, there are no problems whatsoever as long as the main issues are dealt with and we can decide on the right direction, to counteract, we watch trends, competitors, I mean all the staff are like minded in that sense. We enjoy it
GP : going back to education, what kind of levels of education run through the company?

O-M : probably educationally I'm the least educated, my qualifications are purely professional, diplomas, training course etc. The general manager is very highly qualified, BSc in metallurgy, MSc in computer studies (I think), BA in something or other, he has got several degrees. The others, well the production manager has something like, I don't really keep up with these things, its something like a BSc in, oh I can't remember. We tend to be highly qualified
GP: does it tend to be well qualified with experience? How long have you been in this business?
O-M : Yes, I've been, in electronics since I was 16, 31 years and in computers since 1978 so I have quite a good grounding in the business. I think if you notice that this is stamped in to the company as when I speak I tend to put the emphasis on the service, quality service because I think..
GP : yes, I remember when I first met you, service seemed to dominate our discussion
O-M : its etched!
GP : AN Owner-manager = service

GP :Why did you start this business?
O-M : Like a lot of people I was made redundant, the company closed down, a lot of companies closed down in the mid 1980s, computer companies were opening and closing all the time. I had moved from a company that was quite secure to a company that I thought represented a challenge, and then they closed. In the back of mind however, I had always intended to run my own business so this was really quite easy to do.
GP : From the actual information I have, the ownership is you and your wife, is she more of a sleeping partner?
O-M : Yes, more or less, we have a young family, but over the next few years she will probably take a more active role in the company.
GP : she wants to?
O-M : yeah, she will and it will be nice to be able to step back a little myself
GP : so why did you set up with your wife, was it the thing to do or...?
O-M : it was literally a case of not having a job, children and a mortgage, so what are you going to do. So I went to see my existing customers to say I was setting up and luckily some gave me a chance to supply them as at the time I was the only representative of the firm in South Wales. And the company I had worked for had gone in to receivership in a pretty big way so I think I did the right thing as I was able to maintain my reputation and good name with these customers as I didn't leave them in the lurch so to speak by going off and working elsewhere. You build up the relationship with your customers and they trust you and mostly they trust you personally because you are the one they are dealing with. When I started up most of the warranties that had been with the customers through the old company were null and void and off my own back I said I would look after them
GP : are you that type of person who takes responsibility very quickly and feels that AN Owner-manager = service so to speak?
O-M : Yeah, they were effectively up the creek without a paddle and I took the responsibility, but it paid off as I am still supplying them now

GP : What are your aspirations for the future? How will you ensure you meet these objectives?
RI : right, aspirations of the company are, well margins tend to get tighter and tighter and the large corporate's move in to the market so you got to keep the service, the quality up so people will continue to pay you and allow you to make reasonable margins. Aspirations for the company are to expand. You have to expand and we have taken steps to become more and more competitive in production and we've just signed a contract with a company which will give us the task of manufacturing PCs but they will distribute them, a what you might call white box exercise but it will give us production and guaranteed monthly orders that will allow us to buy a larger product and be

more competitive in production. Initially it will be at 300 PCs a month to go to a large group of distributors.
GP : Will it help cashflow?
O-M : it will certainly help, keep production busy, filling in the gaps and we hope to see it pay for itself and not cost me anything. I would certainly like to expand the network support side of the business, charging support services to large corporate companies who would out-source their IT support to us and I would like this as an aspiration and the video conferencing side of the business, yes its been a large investment. Also the industrial network. But expand mainly but certainly only with control, I could treble production tomorrow if I wanted to but I know I'll lose money so its got to be controlled.
GP : so risk has to be measured as well?
O-M : yes
GP : what about personally?
O-M : yes, I think I've been working solidly on this and you look around and see your children growing up, so maybe finish at 6pm, rather than 8.30/9pm. Perhaps have a little more of a social life, family life in particular
GP : will your children take over the business?
O-M : my son is very keen to, but whether that will happen I don't know, I mean long term I'd like to step back, ideally with the family coming in. Not to retire though
GP : Oh, is it too much a part of you now? A family member?
O-M : Yes, I need, you have to keep at it all the time.

Section 3. Development/Growth Planned duration 25-35 minutes
GP : How successful is your company against meeting its objectives, your objectives?
O-M : I think we've been relatively successful, I mean we could've grown more quickly than we did, but I'm happy how we have grown although I'm still ambitious I would still like to be number one in South Wales
GP : is that a written objective, a company objective or is it more a personal objective
O-M : both really, its an objective I've always had from day one and I like the idea of someone trying to knock me off the top spot
GP : are they any other objectives that you have failed to meet
O-M : yeah, an objective that I would have liked to achieve by now would be to be over the border as it were, in the South West of England, establishing an office in Bristol with some people over there.
GP : but its still an objective?
O-M : oh yes, I don't think it will be next year but certainly the year after [2001].
GP : is there any particular reason why this hasn't come to fruition yet..
O-M : purely because we haven't got it set up properly yet, I'd liked to be in the position where I know we have things well and truly sorted rather than spreading the engineers, ourselves too thinly. It's a difficult thing you need to have enough computers, equipment in place but we can't have that without the relevantly skilled staff, it's a bit of a catch twenty two situation. At the moment we have quite a large-ish installation over in Weston Super Mare which we are able to cover ourselves but to be able to expand it to the Bristol area, to service customers over there we do need a base over there
GP : so I would be right in saying that you're geared to doing it right you don't want to go in unprepared?
O-M : Yes, its got to be done right, there is no point going over there and not getting a good reputation because its very difficult to get that back.

GP : how about meeting them in terms of your main competitors?

O-M : yeah, well you see its difficult to compare us with them because we know that our turnover is less but our customer base is probably of a higher quality, I mean they tend to go in to the magazines, off the page, which is a very different market to what we've been talking about, I mean selling to end users all over the country, which is mainly on price
GP : so theirs is more consumer markets, trade magazines?
O-M : yes, end users so that will obviously give them a higher turnover, but its not us and its certainly not the market I want to go in to
GP : so is their marketing ploy more of a comestic job
O-M : yes, so it is difficult to compare them against us or us against them because they have strayed from the traditional path, and we are building our market here, building on our strengths whereas they are moving in to different markets, looking at volume rather than servicing and value added
GP : at the same time, are you still looking for opportunities outside what you do now.
O-M : Oh yes, we are constantly looking, its not a criticism of them but we have different ideas, they have decided to go that way and we have decided to go this way.

GP : What indicators do you utilise to assess company success?
O-M : well, we look for year on year increase in turnover, increasing gross margins, net profits is obviously important but basically as long as you can keep your turnover increasing and your margins increasing, you remain profitable you are able to employ more staff I think that's enough to say we are successful, I mean I don't have any big plans to say lets expand the company by 50% per quarter, as I think its foolish. I know some companies are expanding at 2000-2700% or something like that but if you go from a standing start and you get lots of orders its easy to go from say £5 to £100,000 but not when its in terms of millions. I also don't think we could control that type of growth although I could go out tomorrow and treble production, but would it be profitable? I mean we're not a fast food manufacturer or something like that
GP : what about market share, would you like to expand that?
O-M : Yes, I would
GP : but its not at the expense of your reputation, I mean that's got to be always right
O-M : oh, yes, because that way when you become number one, which we will, its because we've done it the right way.
GP : what about from a personal perspective?
O-M : My company is my success, I mean I'm not one of these people who has a lot of luxuries, I think the year before last was the first time we had taken a holiday
GP : it's a shame you can't take the company with you
O-M : that right, I think that's probably one reason why the wife wants to get more involved in the business but I mean I don't have a flash car, in fact it's the oldest in the company, the service engineers have the newer ones,
GP : so you take what you need, its more about internal satisfaction rather than material satisfaction
O-M : yeah, I mean three of the company employees earn more than I do
GP : that's interesting, is that your management by any chance?
O-M : yeah
GP : and there's no problem with that, I mean at least they can't complain to you
O-M : no, it does temper everything

GP : With reference to the above what have been the main successes of the firm?
O-M : I think that its gone from a standing start to giving 23 people a job and safe jobs and we are all part of a team,
GP : so do have a high turnover, out of interest?
O-M : no, we have turned over staff but not many
GP : so its more like a family, your family?

O-M : oh, yes, its gone very well and very few people have left, I've only had to dismiss three people since I started for very good reasons although I didn't want to do it, but I had to.

Section B

GP : How has growth affected your firm in terms of changes in organisational structure, management and leadership?

O-M : well its certainly caused us to put in a new layer of management, responsible for each department whereas if you go back to the initial thing it was me who was responsible for all areas, with me being very aware that service was everything while Keith my assistant was responsible for sales. Now we've had to put in another tier between him and the rest of the company into the various areas so as the company grows I think you've got to put in more and more layers because you can only really control effectively four or five people.

GP : what about the person from the civil service, the administration side has that been key..?

O-M : oh yes, I didn't realise how important, how bad we were until we had this person in, bringing skills from traditional industries rather than just the IT industry. I mean if you had all the management from an IT background you'd have a bit of a disaster, I mean we would all hate paper work, yes you need to have people from different backgrounds

GP : what about leadership, I mean is the company still driven by yourself or is the company like a family now and they all fight for COMPUTER LTD

O-M : yes..

GP : but you're still the father so to speak

O-M : yes, that's it, they've all taken it on board, I mean its interesting that very few people have left the company and those that have left have gone on to much better jobs and what have you but the good thing is that the companies they've gone to, they have persuaded those companies to buy PCs and services from us, so these people are coming from the shop floor, services, technical support and they know we do a good job and their job is on the line in another company if they deliver. Its something we've noticed.

GP : so these people have a loyalty to the company despite the fact they've left

O-M : yes, they convince their new companies to buy our kit and it shows that we're not putting rubbish out

GP :What about the resource base/capabilities of the firm, finance, technology, skills, knowledge, competences for example?

O-M : well since I've started all those things mentioned have improved. We started off as a hardware PC manufacturer and servicer, supplying dealers who would then supply the customers, but by taking on people with networking skills, and all these good things that we do the whole knowledge base of the company has expanded and sometimes it surprises me that although the knowledge that I can use is limited, the overall skills, knowledge of the company, it is a heck of a wide range of IT skills we have. Very broad based.

GP : so not only competent in your technical areas but your service areas, across the board so to speak?

O-M : I would say that for the complete range of skills in this company, I would doubt if there is another company in the South Wales area that has this base, not even specialised IT departments in large companies

GP : What do you think are the core competencies of your organisation, I mean what you can do now against what you will be able to do in the future?

O-M : right, what we can do now is quite literally supply a total It service to a company, from the PCs, design of the network, design of the whole lot, right down to the operating problems if you like the software but whether we decide to expand from their I don't know, but we can certainly look after all our customer needs

GP : What about finance, is it getting easier to finance expansion?
O-M : It hasn't been easy but by not being greedy and taking big chunks out of the company
GP : so prudent management?
O-M yes, prudent management has been key
GP : has all your growth been organic, internally driven?
O-M : yes, we've never had any external finance or what have you,
GP : are people coming to you banks etc.?
O-M : no, with our bank we have reached our limit on our overdraft 18 months ago and we then went to invoice discounting, which is like factoring (with Alex Lawrie). So invoice discounting was the only way we could finance the expansion and it was the kind of required facility we needed.
GP : so is this something you've come across, I mean were you aware of these things when you started?
O-M : No, I mean I knew what factoring was but I didn't know what invoice discounting was
GP : so as you wanted to expand, you looked at more ways of financing that expansion?
O-M : Yes, you reach a certain situation where your overdraft is high, to the limit and you had to then go over to factoring, invoice discounting to finance growth and then you get to a point where you can pull back and start financing growth yourself. I think that's a long term objective to not rely on overdrafts or factoring
GP : is there a high need for technology, I mean I would think the obvious answer would be yes, but what about the manufacture, testing etc?
O-M : yes, and there are some places where we are still behind, we could certainly invest in production and improve production techniques, I mean we are certainly not at the forefront
GP : are they particular reasons why you haven't invested?
O-M : yes, I think sometimes you are too busy running the company, to do this jobs to step back. Its like a mechanics car, a mechanics car is always the worst car because there are all these jobs but they never get round to doing it.

GP : How have the perceptions of your business environment changed?
O-M : when I started manufacturers would be supplying dealers and now the dealer has gone, now its supplying direct, however, I think its about to go full circle I mean large US companies are coming in and supplying volume leaving a gap that can only be filled by traditional dealers
GP : How about you personally, do you think the environment is just as daunting or are you now very much in control?
O-M : I certainly understand it now, I understand the market, competitors the customers we have got but I never take anything for granted, I can't do that because the day I take it for granted and sit back we will probably be gone.
GP : does the way you view the market really drive the way the company sees the market
O-M : yes, my view of the market drives us along with other people here and their views now but as I'm also chairman of the personal computer association I also meet other types of manufacturers from all types of IT, including the biggest page three sellers in the UK
GP : do you think these influences have helped your decision making?
O-M : Yes, I listen to what others have got to say and some of them turning over billions have spent some money on research so its stupid not to listen to their viewpoint.

GP : What about your attitudes to risk, innovation and strategic decision making?
O-M : I think we are, the attitude is quite conservative and safe we don't take any unnecessary risks and its all controlled. I'm not a gambler basically, I never bet on horses.
GP : What about the way you make decisions?
O-M : A lot of decisions are still done by gut feel, but the element of risk now is probably much less than it was although the decisions are of the same value because the company is safe and thus the risk is not so great.

GP : so following on from that do you think your competitive position is much more secure now?
O-M : Yes, its getting there, the reputation is getting there its building all the time, we're number two we're going to be number one.
GP : With reference to the above what have been the main barriers to the firm achieving further success?
O-M : Probably money, cash because in order to be able to expand your company in to markets, markets that you know are there, you can't get to them because you are not financially set to invest in the staff that are needed
GP : so there's a knock on effect?
O-M : absolutely , I mean going back to this video conferencing, I know its going to be the next big thing, and what I should do is invest in sales and marketing people to go out to demonstrate and snatch customers before the big boys move in to it. But it's the investment required to get that stuff on board and to justify it before the sales start coming in, I mean it's the kind of thing that when it does come in you need to be there and have done your marketing, whether it be 6, 8, 10 months away we don't know but all we know its going to happen
GP : what about the management has that held you back, the management as it is now and how it was?
O-M : yes, there have been times when they have, when I've wanted to do something but they've said hold on lets look at the figures etc. and yes, I've said OK I see, and its one of the reasons why I haven't taken on any partners in the company because at the end of the day if a do take a gamble and stick my neck out, the only one to get their head chopped off is me. If a take somebody else in to the company then I have to look out for them as well, listen to them, so that why I haven't taken on someone so that I can make those decisions
GP : So you can override all management decisions?
O-M : Yes and I do
GP : do you do it quite a lot?
O-M : Not as much as I used to because the risk you take are not the same, because the company has grown and therefore the risk level has got be less
GP : is it also a confidence thing, in your management being able to help you make those decisions?
O-M : Yes, but interestingly one thing I may override them on is video conferencing and that would be against a lot of their wishes and views

Section 4. Decision making

GP : Who makes the decisions that concern the strategic direction of the firm?
O-M : I make the decisions but now I have meetings particularly with my general manager we discuss things but I suppose the decisions I make. I consult with people before I make any decisions to change direction

GP : To what extent do the various levels of management contribute to the strategic decision making process?
O-M : I suppose it depends upon the importance of the decision, but I would say that it is both notable and advisory, if its a simple decision then advice is sought and a decision made but if its a serious change of direction, for example the video conferencing we had to make a serious investment that decision was made purely by myself there was no input and I decided that this was the way to go.
GP : what about other times?
O-M : they will contribute

GP : do you think that has grown with the company, and decisions are now made more on a consensual basis now?
O-M : yes, I think if you keep, for two reasons mainly, respect for their and trust in their advice and also if you didn't do that and made decisions on your own they wouldn't feel involved, part of the company and it wouldn't help the company to expand as they would feel left out

GP : How are key strategic decisions made? Describe this process
O-M : Well depending on what section of the company involved, what I would do is speak to my general manager and we would bounce it out between us to decide what way we were going to go. When we have a rough idea, an outline of what direction we are going to go and what decision we should be taking we then bring in the manager that is responsible for that department in to the process, no decision is made but he is told to go away and think about it and we will then have a meeting, a really in-depth meeting with his advice and then we will decide where we are going to go and hopefully he will add to the process, changing or enhancing our decision based on what we were originally going to do. But initially the involvement is me with the idea, then my general manager and then progressing it through the company and even sometimes to the guys in production as well
GP : How long would that take?
O-M : It can be as fast or long winded as I want it to be really, I mean ..
GP : lets say its a major decision one that is going to determine where the company is going to be in five years time
O-M : that would be a drawn out process we would seriously look at the options and it depends on the size of the investment required, if for example when we had to buy CE test equipment, we had to have it to improve the quality of the company, the decisions was made quickly but the purchasing of it took time to make sure we could properly afford it.
GP : what about in line with your aspirations for growth and expansion are these taken into consideration when decisions are made?
O-M : yes, its all integrated its all part of the company as it were
GP : would you say decisions made on the premise, what have we now, can we do it or that's where we should be
O-M : I think its more that where we've got to be. We need to look forward all the time. I mean I have a picture in my mind of where we want to be and its getting there, deciding how to get there is the difficult thing.

GP : What factors influence strategic decision making?
O-M : All those examples you just gave, top management characteristics/aspirations, resources, past experience, information, instinct, consensus, need to meet objectives, customers, competitors, employees, suppliers, legal issues.
GP : what then do you see as the main influences?
O-M : The main influence in your mind is that you want to be the best. So whatever you think, or member of staff thinks it what will helps us to get there which influences the decisions made by the company and we have got to focused on those things and its difficult to say what in particular influences decisions
GP : does it depend upon the decision?
O-M : yes, it does depend upon the decision, but all the decisions are made with one objective in mind and that is to be the best and what it takes to be the best. So if you make a decision based on that as long as you have the results from those decisions are favourable.
GP : so all the things that I have mentioned have an impact in some way
O-M : yes, because you need all those things to make you the best at what you do
GP : what factors do you feel are the most frustrating that you have to take into consideration?

O-M : I suppose petty things, well what I see to be petty things that may not be petty to other members of staff or customers, things that, you know paperwork those kind of things that tend to hold you back constrain you, but as I say it isn't a major problem as I have people to do those jobs that I never ever would get round to doing because I hate them
GP : what about resources
O-M : the resources you have keep you where you are and make sure you do things right and that then frees you up to look at where you want to be but you can't look forward without getting your company right first and you do that by having the right staff in place
GP : so you would say that your resources are very flexible still and allow you do a number of things?
O-M : yes, definitely

GP : How has this process changed as the firm has grown?
O-M : Well again from making decisions are the fly as it were to and saying do this do that and it being done to having to spend time with people you have employed to do management jobs and you mustn't undermine them and by pass levels of management by going to see a guy and saying do this and that to get it done. So you have to kind of control yourself and treat people you have got it place with the respect they deserve, however, but when I do need to do something I will do it and if they take offence well sorry.
GP Have experiences in the past altered the way you look at decision making?
O-M : yes, you find that you feel you are doing something in the best intentions for everyone and suddenly you find a senior member of staff has been offended by what you have done. You explain to him that is not the case but sometimes the next time you do something you tend to think twice rather than by instinct so you try and get them to understand that sometimes I would do things instinctively. At the moment we are able to do that with our size but if we get big then you have to be careful because the point where I think politics come in to companies and I don't want that to happen and its something I fight all the way and once politics start coming in and people start building their own little empires, I mean I've seen it happen, I've worked in companies before. That won't happen
GP : are you still driven by the customer, customer service, I mean is this still the main focus?
O-M : Yes, that's not changed and the personal contact with customers I've tried to maintain it so they can ring me up and say 'Bob' what's happening here, which makes it difficult because I say I would like to stand back a bit you can't do that
GP : so customers still want to deal with you?
O-M : yes, although sometimes you think you are wasting my time here it means a lot to them and even if I instruct someone else to deal with the call they think I've done it

GP : To what extent are decisions constrained by existing resources?
O-M : Yes, we do have to still go out and get information, although being chairman of the personal computer association it does help a lot
GP : was this a strategic move?
O-M : well, going back to quality the PCA is like ABTA for travel agencies so you have a code of practice and it tends to root out cowboys not all because there are loads but it differentiates us from them. So although it was an honour, its more than that and I tend to work very hard at the PCA as its something I think will become nationally important and we hope to make it pan European but again decisions that I make I can go and get those resources but one big problem we face is time to have meetings to make these decisions. I don't think this is purely down to the decision making process being more lengthy but also because the company is much more busy than it was. I mean we start to discuss things and then there is an urgent call which you must take so its very difficult to get these meetings together

GP : What measures are used to overcome these obstacles?
O-M : well meetings outside normal hours of work, meetings away from work I mean occasionally I will ring up members of staff on the way to work and meet them in the local café. Switch the mobiles off. Time is the biggest problem and time management is a big problem I mean the phone rules the company and that phone, is an intrusion to you.

GP : What <u>key</u> decisions have been instrumental to firm growth and establishing competitive advantage? Why?
O-M : I think the decision very early on to supply corporate customers direct rather than through a dealer because we then allowed ourselves to make enough margin. The other key strategic decision in growing the company in growing the company was when dealers started to cut costs on maintenance and COMPUTER LTD said we would match them and beat others on price as well as knowing that the reliability of our product would mean that although revenues were greatly reduced, maintenance would be lower and profitability would still be good and if something in effect is not costing you anything to maintain because its not breaking down then even if its five pounds its still five pounds to the company. So realising that which the dealer didn't realise allowed us to expand very quickly and leave the dealers behind.
GP : what about internally?
O-M : Well gain, I've always we have always reacted to rather than be proactive in that when a particular part of the company has grown we have put the staff in to cover that. Originally I was doing the servicing but it became too much for me and so I took on a service engineer and then you take on another, so reacting to the market although it doesn't sound very forward thinking I knew they were needed but I wouldn't put these people in place until I needed them. I mean there are salaries and overheads to pay which effects the profitability of the company. Again going back to your original question we have simply put people in place to manage growth as it happens. Market wise deciding to go after local government and NHS sectors were key, noticing it was time to move into the corporate market because it was better paid and now realising that the SME market is the way to go

GP : Have there been any decisions you could have made to further the success of the firm?
O-M : Yes, definitely I could have decided to go in different directions like I mentioned, off the page, which would have certainly expanded the firm although I Think it would have affected the firm's reputation. The image I have had of the company is quality, expanding the firm could have been easily achieved but we would have lost a part of what the company stands for and I couldn't run a company that I wasn't happy with but we could have gone in to local shops but we wanted to stay with what we know and what we are good at (centred on O-M's beliefs). Yes, end users are a different market to the business market.
GP : as you have answered the question 'Why did you choose not to implement these decisions?' we will move on to the next section

<u>Section 5. Strategy/Management</u>
GP : Which of the following statements best describes your strategic orientation? *'we are driven by our perception of opportunity' 'we are driven by resources currently controlled'* Why? Please state your justification.
O-M : I think, we are driven by resources currently controlled but I'd like it to be we are driven by our perception of opportunity. Because of the financial constraints and the fact that we don't have big bucks invested in the company, all money has been earned from the company so obviously you've got constraints on resources, on finances to expand the company. It is very easy to go and win business as I have said if we had loads of money its that simple so I'd like it to be, its, there's no yes or no to either of those but we can't go after certain things because we haven't got the

money to invest in sales and marketing but in my mind I see opportunities out there , which drives me on but its how I can achieve it, its like there's a bridge, a gap if you like and if you like to give me £200,000 I'm sure we could bridge that gap easily and its a figure that always seems to come up.

GP : What do you consider to be the key success factors of your market/industry
O-M : Well again it ties up with what we do, I mean what the market is looking for is expanding and there are a lot of companies opening up around here and they are looking for reliable companies, local companies, companies that are not based in elsewhere
GP : so speed of service is crucial?
O-M : yes, using the M4 corridor is crucial, We can get anywhere in South Wales on the M4 corridor in an hour and there is a tendency for companies that are based say in Birmingham to say we will be there tomorrow whereas we there today and that the key things
GP : are there any others?
O-M : well its all wrapped up in quality, trust and being able to come up and kick that door in if they have got a problem, sort of we are on tap, ready and available

GP : How far has your company gone to securing these attributes?
O-M : Well we are for our existing customer base, we are there, they are happy, and they give us references and ask us about other guys so they obviously think we are there. As they expand we have to expand to meet their needs and their perception is that we can do that. With new companies we have to take on new staff and convince them that we are able to cope and look after their problems, this maybe the problem if we make another significant leap and making sure the structure is right

GP : To what extent are these attributes easy to secure?
O-M : Well you could be up and running fair quickly if you had the money and people behind you but the reputation would take a long time to build and if someone had that sort of money to throw into this business that would very quickly fall over. I think from small to big is better than just coming in big
GP : so if I sat down and analysed it all, are there certain things I couldn't do because I am not party to the internal workings of the firms?
O-M : Yes, you would need to go through growing pains
GP : are there also some things that you couldn't explain why you are successful, why you do things the way you do?
O-M : yes, that's very true, we do a lot of things without really knowing that we are doing them. It contributes to the image of the company all the time. For example zip ties to make cabling neat, are all things that help our image. I think gradually the customer sees these little touches, I mean our services engineers go on site and clean screens and keyboards although they don't need to, but its those little things that you can't put a value on that help image
GP : Is it instinct?
O-M : oh, yes I've always done that, appearance is also important when meeting customers

GP : How many of the key success factors you have described, specific to your firm? Please explain why these factors are specific to your firm?
O-M : Speed to breakdown, the fact you can be there in three minutes, because three hours, three days is no good and even if you can't resolve it immediately you know that the customer is content that they can leave that problem with you and that it will be dealt with although it maybe frustrating. I mean all too often this is not the case and you have people screaming blue murder down the phone, what's happening etc. but with us one phone call and the customer knows that the problem is resolved.
GP : Is this particular to your firm?

O-M : yes, well I think it is, I mean it comes under this quality thing, its all part of, all encompassing, its confidence that customer has in you and sometimes when you look at figures you think, 5 hours to the fix, that's not very good but when you phone the customer up, he's confident and happy in your service. Its something that I've built up, I've always been in servicing, 32 years, its something that you have brought with you.

GP : What processes are required to successfully develop these firm specific factors
O-M : Well, keeping an eye on times, responses, fault feedback, how long its taken to fix the problem so we know how long its taken on average to solve problems and every week the sales manager has to give me the figures and show that he has hit the targets set, how many calls are outstanding, why they are outstanding, does the customer know. Now if this picks up a trend and he's not hitting targets we can investigate why, is it because we've sold more machines etc. Right we need another engineer, I mean the engineers live in particular areas to service customers
GP : so over ten years you've built up a knowledge base to assist you?
O-M : yes, and it changes as machines, customer needs change, hardware is more reliable whereas software is not and therefore we have changed our skill set I mean I can no longer go out myself because my skill set is not sufficient
GP : but you have the foresight to ensure that your knowledge base is always equal to the challenge?
O-M : yes, we've always pro-acted to the need and the systems, processes and reputation is always in place, but finance means that some areas could be better

GP : Of these firm specific attributes which do you consider to be sources of competitive advantage for your firm? Why?
O-M : its purely the quality of the staff, the personnel, they are good at their job, dedicated to the company, I mean yes I could lose them but I have this system where staff is coming through from the test bench to service engineers. So it keeping that up, there's no one thing that I can put my finger on and say that's it, its all the little bits that come together and enhance the image of the company
GP : so as I have said before, there are things that are not easily explained?
O-M : yes, that's right some things work some don't, its going that little bit further doing something they don't expect which leaves the customer impressed an image of quality
GP : do you think that image, quality comes from you as from day one you hit them with service?
O-M : oh yes, without a doubt, its like Blackpool rock it goes right through the company, particularly it is satisfying to see youngsters out there as field engineers that have come through rather than taking on service engineers and moulding them
GP : so these guys know the company back and front, inside and out?
O-M : yes, they all know what we offer and won't promise things we can't deliver

GP : As your company has grown what management practices/processes have you introduced and introduced <u>specifically</u> to ensure that you maintain your competitive advantage?
O-M : well ISO9000/2 because that allowed us to analyse what we were doing and document activities and I certainly learnt a lot from that so that was one process we put in and its easier then to show other people what we do and I think also not taking short cuts and saying to people yes I know you are desperate to get this done for this customer but no, do it properly, must do it right, so if you keep the quality right the speed at which you do things improves as doing things badly costs you time and eventually you will get things down quicker, so that process is important and it must be right and you can't get away with it
GP : what about the formalisation of meetings?

O-M : initially it was introduced because it had to be introduced but now it is a strategy because I need the input from my management team and I need to be constantly updated with what is going on. I think a lot of people that call themselves entrepreneurial tend to do things on the fly and don't like to be tied but as you become successful you have to
GP : so you think everything you've put in place has been geared to reinforcing your competitive advantage?
O-M : yes, and that's why we're still here I think we could have done things a lot differently and a lot cheaper but I don't think we would have survived, we would have won a lot of business but probably over traded
GP : although going back although you've said that you had to introduce it, you've then seen the benefits of these actions, after the event
O-M : yes, but I think what it all hinges on is doing it right, because people know that is the only right decision and you don't need to constantly make these decisions for them

GP : How have the introduction of these practices determined the future strategic direction and development of the firm?
O-M : Yes, its certainly meant that we haven't been successful in the high volume production market, because we're not, and its not, cost effective enough to do that so we've controlled the direction the firm was gone, however, if you're not happy with the way thing are then there's no point going down that road, because you will not put the effort in and although you can't understand why it is failing, it fails. Yes, strategically decisions decide where we go and the basic philosophy of quality is ingrained into the business at all levels. Without that I don't think I can change me and thus I can't change the way the company runs and everything is driven by this vision. Giving people what I want myself

GP : What other measures have you implemented to ensure that your competitive position has been sustained?
O-M : training is key, bringing guys in, we are investing at the moment in software package which will be a niche market, with an alliance with a company in India, and we will develop that and bring that to market and its future proof in the company to give us other directions to go in, but in terms of the company itself training, from school through the company to handling high level customers has worked well and I have confidence in them. Its a strategy I believe in, I believe in apprenticeships, because you need to go through the learning curves, the pain barriers they guys have, you couldn't just set up a company without this process
GP : where do you think you are in terms of growth?
O-M : we are at a point where we could have a big leap because of the new areas we are going in to, but we will ensure that we can control it when it comes but certainly growth will happen, despite the limits of our location there are opportunities. There are two types hunters and farmers, those that hunt for new business and those who continually reap from existing customers. We do the both and we will continue to be successful because that strategy can't fail.

<u>Section 6. Entrepreneurship</u>
GP : What do you understand by the term Entrepreneurship?
O-M : (paraphrased) - entrepreneurship is growth but I don't really understand the term. Its been contrived as a cavalier who earns mega-bucks both an Arthur Daley and a Richard Branson. Its nothing to do with money, ideas, money does not drive entrepreneurs, its building something up from nothing. I mean why is Alan Sugar still doing it, some of them it is power say Maxwell, they like the respect. I don't know what drives them at the level they are millionaire. Personally, its a family, watching the child grow up

GP : Given this understanding, to what extent to you consider your firm to be entrepreneurial?
O-M : any company that has established itself, expanded has got to be entrepreneurial but it could be large company as long as you never let politics come in to it. Never let that happen look at British Steel, Universities, empire building etc.
GP : does politics that effect who you deal with?
O-M : well in terms of volume its easier to deal with large companies but I like to deal with the IT department and circumvent politics and avoid those people that for no reason whatsoever can swing decisions. Politics stop value for money. We can lose relationships due to changes in personnel.

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