Strategic Orientation and Organizational Performance of Small Firms in Malta

A Grounded Theory Approach

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Abstract

Although the contribution of the small enterprise to a nation's economy, job creation and innovation is well known, comparatively little is understood on how small firms behave strategically and how the more common patterns of strategic behaviour relate to different levels of organizational performance. The following thesis aims at mapping out the strategic behaviour of small firms in the small island state of Malta, and in relating the evident patterns of strategic behaviour to the performances of these firms.

The thesis follows on the logic of understanding strategy as a dynamic phenomenon, one that can be viewed as pathways between identifiable life cycle states. It also views strategy as behaviour, part deliberate and part emergent, thus allowing for the inclusion of both external influences and internal decision making. To be able to achieve this dynamic viewpoint of strategy a particular research methodology had to be deployed, observing both the context and the consequences to a firm's strategic actions, as well as the very actions and interactions themselves. A Grounded Theory method of enquiry was adopted for this purpose as it is ideal for observing patterns, the very theme of this thesis.

The research in question has focused on small firms with up to 49 full time employees, in line with the E.U.'s definition of both micro *and* small firms, and in a broad range of industries in Malta. Results confirmed the predominance of five trajectories, or pathways, of small business strategic behaviour, each passing through a sequence of distinct life cycle states. For each pathway a unique performance situation was observed, resulting from the dynamic coalignment of the owner-manager's entrepreneurial philosophy, the competitive behaviour adopted by the firm, and the competitive environment to the firm. Understanding which strategic pathway a small firm belongs to allows for a comprehensive insight into the firm's competitive behaviour, and a prediction of the consequences to that behaviour. The audience to the research consists of government entities involved in policy construction, small firm owners and managers, and the academic community involved in research and policy design.

Keywords: Grounded Theory; Entrepreneur; Strategy; Strategic Behaviour; Orientation; Typology; Life Cycle; Small Firm; Business; Trajectory; Pathway; Performance.

Chapter 1: Introduction

1.1 Background to the Study

The role of the small business is well known in terms of contribution to a nation's economy, job creation and innovation. The National Statistics Office in the E.U. member state of Malta has identified no fewer than 30,790 small firms that were operational in the latter half of this decade; 96% of these registered up to 9 full-time employees and the remaining 4% registered 10 to 49 full-time employees. These small firms provide over 65% of employment, 38.7% of the economy's value added and 17% of investments within the private sector in Malta. Little is known, however, on how these small organizations behave strategically, and how their strategic behaviour relates to their performance. In fact the literature in this area is scarce, and limited empirical research exists (Borsh, Huse and Senneseth 1999; Ebben and Johnson 2005). The research in question looks into the strategic behaviour, or orientations, of these small firms in Malta, and how the different patterns of behaviour relate to varying levels of performance. The research in question is essentially a study of small businesses in a small island state, focusing on limited liability companies with below 50 full-time employees (that is, 0 to 49 employees), and operating in the retail (38% of the 30,790), manufacturing (10%) and general services (52%) sectors in Malta. Thus, the research looks at what the E.U. definition takes as micro firms (0 to 9 full time employees) and small firms (10 to 49 full time employees). This width of focus was a planned decision taken at the start of the research, as it was indeed expected that the findings on small business strategy would show firms in movement; changing in size, strategic focus, resource configurations, and so on.

On business strategy, Mintzberg, Ahlstrand and Lampel (1998 p. 8) point out where the real problem lies, observing that "*there is a terrible bias in today's management literature towards the current, the latest, the hottest*". One only has to see the explosion in the literature on *entrepreneurial orientation* (EO), for example, to appreciate how the general academic focus tends to pick up and sustain one particular, and at the time popular, direction of interest. On researching the small enterprise, Curran and Blackburn put forward a sensible piece of advice, observing that "*smaller enterprises are actually more difficult to study than larger enterprises*" (2001 p. 5), and that "*research on the small enterprise is about creative, new ways of thinking about the small enterprise that will enhance our understanding of how it functions*" (2001 p. 30). Understanding small business strategy is now assuming an even greater urgency, given the challenges being faced by small firms in an increasingly turbulent competitive landscape. Ebben and Johnson (2005 p. 1250) go as far as stating that, for the small firm, "*selection of strategy is critical for survival given the disadvantages they face*". However, the common rejoinder here is that small firms have no strategy, that the firm simply follows the whims of its owner-manager, acting heuristically and basing its decisions on instinct, gut feeling, and circumstances. Small firms are "simple" firms (Miller 1983) or "lifestyle" firms (McCarthy 2003), not worthy of any real academic focus. A number of prominent authors come to the defence of the small firm here. Kisfalvi (2002 p. 489) argues that "*although entrepreneurs seem to engage little in formal planning, strategy in entrepreneurial firms can exhibit identifiable patterns over time*". This follows a similar train of thought to that of Hambrick (1984 p. 33), who had posited much earlier on that "*since strategy is by its essence a dynamic phenomenon, it would be fruitful, even essential, for researchers to emphasize the classification of strategic pathways*". Possibly the greatest advocate of strategy as a pattern in a stream of decisions is the established author Henry Mintzberg himself, who maintains that streams of behaviour can be isolated, and strategies identified as patterns or consistencies in such streams (Mintzberg 2007; Mintzberg and Waters 1985). This approach towards mapping out of patterns of strategic behaviour, and relating these patterns to performance, shall be shown to be the central thrust of this research project.

1.2 Originality of Research and Gap within the Literature

Research on organizational strategy has been prominent for large firms (Rauch et al. 2009; Smith, Guthrie and Chen 1989), as well as for public sector entities (Andrews, Boyne and Walker 2006), but has rarely been carried out for small firms (Aragón-Sánchez and Sánchez-Marín 2005). The main reason is that the formal strategic management procedures that apply to large organizations are, more often than not, irrelevant to the small firm. The owner-manager will have little resource capacity for tasks such as formal strategic planning, and will function more on intuition, experience and instinct (McCarthy 2003). Research on strategic patterns of behaviour for small firms is thus understandably limited. Three particular limitations exist within the literature:

1. An excess focus on particular areas of strategic behaviour, that is, particular orientations. Research to date often looks towards a select few dimensions of strategic behaviour, biasing the research by pre-supposing which parameters are

important (McKelvey 1975), and inhibiting the emergence of the true multi-dimensionality of the construct (Ketchen and Shook 1996).

2. Cross-sectional deductive research, with predefined patterns and hypothesis testing, is the order of the day (e.g. Aragón-Sánchez and Sánchez-Marín 2005). As a result, the same patterns of behaviour are always emerging in the research, and are not grounded in the data. Little appreciation is given to the organic nature of strategy (Farjoun 2002).
3. A limited quantity of inductive studies have been carried out to date, making generalizability of any innovative findings difficult, and validity studies inconclusive.

Notwithstanding this gap in the literature, the importance of small firms to a nation's economy is well known. A contribution to the research in this area would be a significant enhancement to the existing academic literature. Further knowledge on how small firms apply strategic decision-making to enhance their performance would thus be welcomed by management practitioners and academics alike.

1.3 The Purpose Statement

The purpose of this research was to study patterns of strategic behaviour for small firms within a wide range of industries, and in a small island state. The aim of the study was to explore and understand the various dimensions of small firm strategic behaviour, and how the resulting behaviours of the firm relate to organizational performance. A postpositivist, constructivist knowledge claim has been adopted in the research. As a strategy of enquiry, grounded theory has been applied. This has allowed for an analysis of both structure and process, an aspect that is essential when studying dynamic patterns of behaviour. Data were gathered through two means; primarily through the in-depth interviews of the owner-managers of 67 small firms, and also through quantitative data focusing on the financial achievements of these same firms over a number of years. MAXqda2007 was used as a tool to integrate, manage and aid in the study the large quantity of data obtained. A typology of patterns of strategic behaviour was sought, as well as the relationship between the various patterns and the performances of the small firms. The audience to the research is four-fold; the academic community, local policy makers, private stakeholders, and the small business owner-managers themselves.

1.4 The Research Problem, Question and Primary Objectives

It has been empirically proven that strategic typologies successfully explain a significant portion of organizational performance (Ketchen et al. 1997; Thomas and Ramaswamy 1996). However, studies are mainly limited to large organizations and little is known about how small firms make common strategic decisions about deployment of resources and long-range decisions taken. Typologies based upon dynamic patterns of behaviour are even rarer, a noticeable exception being Kotler and Armstrong's (2008) application of product life cycle theory. Typologies, parsimony and strategic behaviour go hand in hand, as shall be demonstrated throughout the thesis. The research question that guides the study and supporting objectives is the following two-part question:

a) How do small firms behave strategically, and b) how do the evident strategic behaviours relate to organizational performance?

Three primary objectives are stated for the research project. These are as follows:

1. To identify and describe the various dimensions that act as antecedents to strategic behaviour, for small firms in the small island state of Malta.
2. To seek common underlying factors and threads that relate these dimensions to one another, as well as to the respective industries and competitive conditions. To map out these factors/threads in the form of dynamic patterns of strategic behaviour.
3. To seek possible relationships between the more common patterns of strategic behaviour and the performances of the small firms in this chosen substantive area of enquiry.

1.5 Contribution of Individual Thesis Chapters

Following this introductory chapter, the thesis document proceeds with a literature review that is detailed in Chapters 2 and 3 respectively, with an outline literature map depicted in Figure 2.1. An argument commonly found in qualitative research, no less so in grounded theory, is whether to place the literature before or after the findings of the research. This argument is really based upon a more fundamental one; whether the literature has been used in a deductive fashion to pre-empt a conceptual framework to be confirmed/rejected via quantitative techniques, or if the literature has been kept aside by the researcher, only to be used at a later stage to substantiate "untainted" findings. This argument actually rages on with a vengeance within the different grounded theory approaches that can be taken. Glaser (1978, 1998) will insist on keeping an untainted, unbiased view of the phenomenon under observation. Strauss and Corbin will cautiously advocate theoretical sensitivity, arguing that "*bringing the literature into the writing not only demonstrates scholarliness but also allows for extending, validating and refining knowledge in the field*" (1998 p. 52). More recent authors such as Charmaz (2006, 2008) and Bryant (2002) will go a conceptual step further, advocating constructivism, and a complete integration of the researcher and the research. Two reasons account for a decision taken to place the literature *before* the research findings in this thesis. Firstly, as shown in the forthcoming Chapters 4 and 5, the knowledge claim, and subsequent strategy of enquiry adopted, have strongly lent towards a constructivist approach. Secondly, there was less literature reading *after* the research closed off; most of it came before and throughout. Previous dissertations carried out on the research topic, and a number of years as a small business consultant made impartiality to the phenomenon impossible. Arguments in favour of a constructivist approach to the grounded theory method of enquiry adopted shall be made in forthcoming chapters 4 and 5.

The literature review is distributed into three main areas. The main thrust of Chapter 2 has been to integrate the somewhat scattered literature streams that point towards a dynamic coalignment of the firm, the owner-manager, and the competitive environment. A second focus of Chapter 2 has been to assimilate the various (and primarily economic) theories that support the notion of strategic groups. The reason for this is that the thesis is based upon a typological approach; the grouping of firms with similar strategic pathways. This is, in itself, strategic group theory. A quick note to be made is that, whilst the word "typology" will be used throughout, the research is also a taxonomic exercise. In clearly demarcated quantitative studies these are two separate activities; first a conceptual typology is devised, and then an empirical taxonomy is created by placing the sample elements into the different typology cells. This does not happen in grounded theory. Theoretical construction of the typology and empirical population into a taxonomy take place at the same time (see Figure 4.3 for a visual explanation). Chapter 3 is a continuation of the literature review, with a focus placed here on the various typological approaches that can be adopted, and various examples given and strengths/weaknesses discussed. The chapter closes with an argument in favour of using a trajectory-based typological approach. This abides by the strategic group theory described in the previous Chapter 2, and allows for the application of dynamic coalignment, also the subject of Chapter 2.

Chapter 4 details the research methodology adopted for the study. The knowledge claim is one of postpositivism, tending towards the right of the continuum visualized in Figure 4.1. The method of enquiry is grounded theory, applied to study the social reality of small business strategizing, as perceived and acted upon by the owner-managers central to the business. In all, 67 small businesses contributed to the research that took place over a three-year period from 2007 to early 2010 (excluding thesis writing and such). This is not a mixed-methods study, but it did incorporate both qualitative and quantitative data. The main source of information was qualitative, through the in-depth interviews of 67 owner-managers to the businesses, and the inclusion of descriptive memos to further explain the many observations that were made. A second source of information was a database compiled on the financial achievements of most of the firms in the sample, obtained from the audited (and publicly available) financial statements of the firms in question. The founders of grounded theory (Glaser and Strauss 1967 p. 18), explain this data integration very well by arguing that "*in many instances, both forms of data are necessary – not quantitative used to test qualitative, but both used as supplements, as mutual verification and, most important for us, as different forms of data on the same subject...*". The chapter in question details the epistemological underpinnings of the grounded theory method of enquiry by briefly describing the contributions of various prominent authors. The sampling strategy that was adopted is summarized in Figure 4.3, showing a sequence of sampling techniques adopted for different purposes.

The methodology chapter goes on to explain the logic of the choice of research settings. An intrinsic knowledge of the culture and language of the Island, as well as the wide diversity of business types available within a limited geographic area, made the Island an ideal choice for the research. Malta, being a small island state, with a population of just under half a million, was seen to be highly attractive for the study of small business strategy for two additional reasons. Firstly, the ratio of business types, sizes and configurations is highly similar to that of larger countries such as the U.S., U.K. and Australia. Furthermore, it was expected that the confinements in size and market structures would serve to amplify the actions, conditions and consequences that portray small firm strategic behaviour. Also, in 2010 the European Innovation Scoreboard confirmed Malta to be a 'moderate innovator', on par with many other European states. The methodology chapter goes on to detail the rigour through which the grounded theory method was applied, such as the coding methodology that was deployed, the application of comparative analysis to build a robust set of categories and properties, quality criteria that were targeted, the use of MAXqda as a support tool, and ethical considerations that were abided by. More specific methodological issues have also been discussed in subsequent thesis chapters 5, 6 and 7, as they related more to the particular objectives of these dedicated chapters.

Chapters 5, 6 and 7 detail the research findings, each focusing on a distinct area of research that contributed to the final outcome. The final outcome is summarized into a model for small firm strategic behaviour (within the substantive area of enquiry), illustrated in Figure 8.1 of the concluding Chapter 8. Five strategic trajectories were observed; a *retrenchment* trajectory, a *controlled focus* trajectory, a *contained growth* trajectory, a *dynamic growth* trajectory, and a *repositioning* trajectory. This typology of strategic pathways pictures the firms in question moving in a dynamic fashion between four strategic states. Each strategic state is a unique competitive situation, with particular firm–owner-manager–environment coalignment. This is also life cycle theory, as applied to the small firm. The logic of the three *research findings* chapters is thus as follows: In order to map out strategic pathways, first, the key junctions or nodes to these pathways must be established. These are, in fact, the four strategic states that were observed for the firms in question. To be able to observe these strategic states steps must be first taken to choose and operationalize the variable set that acts as antecedents to the states. Selection and population of this framework of variables was the objective of Chapter 5 of the thesis. Chapter 6 focused on establishing the different strategic states. Chapter 7 proceeded to establish a typology of strategic pathways that the firms would generally follow, as they moved between the strategic states. Appendix 10 illustrates these pathways. Dynamic coalignment was observed as the firms traversed between states, or opted to oscillate within a particular strategic state. Performance implications, both subjective and objective, showed largely different financial and non-financial achievements being acquired in the different states, motivating owner-managers to take on particular trajectories. Final observations, conclusions, and limitations are then catered for in Chapter 8 of the thesis.

Chapter 2: Literature Review. Strategy Relevant to the Small Firm

2.1 Overview of Chapter and Literature Map

The introductory chapter has set the stage for the research by outlining the research question and the main objectives. The aim of the research has been defined as a bid to map out common patterns of small firm strategic behaviour and relate these to organizational performance, within the context of a small island state. The literature, whilst not required for any deductive form of study, is essential to explain the rationale and theories that support (or challenge) the present research findings, and to position the research within the larger theoretical context. As posited by Strauss and Corbin (1998 p. 52): "*Bringing the literature into the writing not only demonstrates scholarliness but also allows for extending, validating and refining knowledge in the field*". The literature map shown in the following Figure 2.1 outlines the various literature thrusts that shall be discussed in this chapter, and in the next (Chapter 3, that is a continuation of the literature review). The map identifies three major literature streams, and various sub-streams, that collectively relate to the research theme.

The focus of the present chapter is on two related streams; that of small business strategy and of strategic group theory. The main stream, shown to the centre of Figure 2.1, starts off with a general perspective of strategy, the various schools, theories, and how small business strategy can be understood as a pattern in a stream of actions. Following this generic overview that aims to establish the concept of strategy as observable behaviour, the remainder of the main stream looks for evidence within the literature of how this can be done. Literature is reviewed that looks at the firm, and then at the owner-manager, as separate units of analysis. The objective is to contrast the literature on small business strategy that sees the firm to be "the" important strategic unit, with the literature arguing a focus on the individual as the important precursor to a small firm's strategic behaviour. The owner-manager's characteristics, both psychological and behavioural, are given prominence. This is followed by a review of the literature arguing the concept of firm – owner-manager strategic coalignment. Following this, the competitive environment of the small firm is discussed, and a conceptual model integrating the objective and perceived environment is established. This model also incorporates the earlier concepts of owner-manager psychological and behavioural tendencies, as well as the firm's resource setup and behaviour. The dynamics of small firm strategic behaviour are then given greater prominence with a review of the literature on organizational life cycle and its strategic implications. This highlights the importance of strategic coalignment in each of the different stages of the small firm's evolvement.

Finally, the literature on small business performance is reviewed, cumulating into a theme that different performance criteria are important to the firm at different stages of its being. This theme complements the logic of dynamic firm coalignment. The main stream in Chapter 2 closes off with an argument in favour of using a typological approach to measure the strategic coalignment of firms and their varying levels of performance.

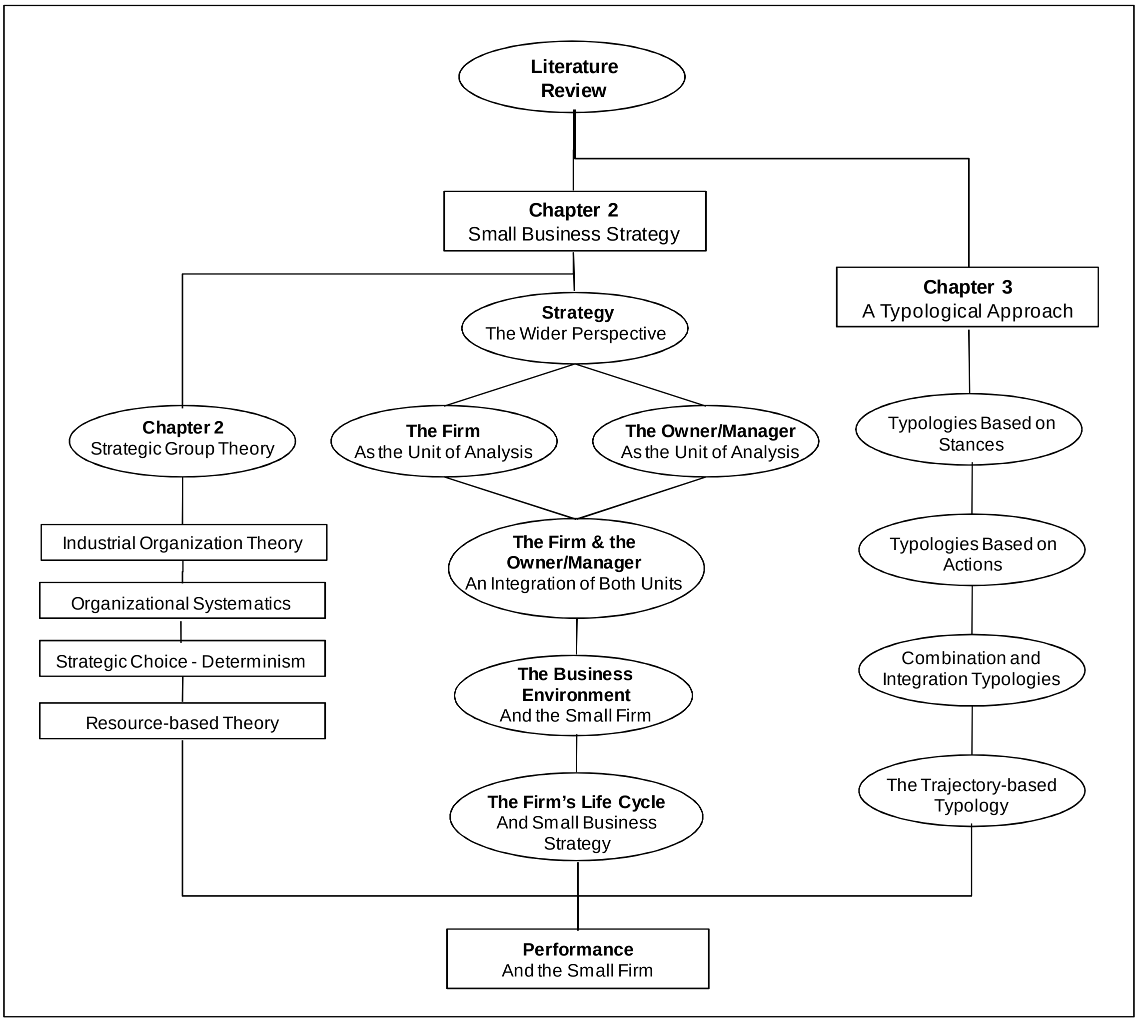


Figure 2.1: Literature Map

The second literature stream within this chapter (shown to the left of Figure 2.1) provides a theoretical foundation for the grouping of firms with similar strategic behaviours. This is the domain of strategic group theory. This strategic grouping approach is based on strong economic foundations, well established within the literature. Four schools that collectively support strategic group theory are discussed, and an integrated model is put forward as a set of propositions. The general logic is that there are different competitive conditions for firms within particular groups, as well as between the different groups.

This then sets the stage for the following Chapter 3 that delves into the more practical, and empirical, applications of strategic group theory. Chapter 3 discusses different typological approaches that can be adopted as a means of mapping out and observing similar patterns of business behaviour. Four approaches to typological studies are described: Typologies based on a static picture of 'content'; Typologies based on dynamic business processes; Combination and Integration typologies that attempt to integrate process and content; Trajectory-based typologies that are seen to truly incorporate both content and process. Chapter 3 concludes with arguments in favour of the trajectory-based approach, an approach that will allow for mapping of the dynamic stages of small business coalignment.

2.2 Strategy: The Wider Perspective

The literature on business strategy takes on a somewhat bewildering series of directions, and has been the subject of numerous texts and studies with diverging contexts and conceptualizations. A few of the more prominent strategy viewpoints are as follows: Strategy from a Contingency, Configurational or Universalist viewpoint (Hambrick 1984, 2003); Strategy as fit or as congruence (Drazin and Van de Ven 1985); Strategy as a unique and valuable position (Porter 1996); Strategy as 'orientation' (Fulford and Rizzo 2009) or as 'stances' (Andrews, Boyne and Walker 2006); Strategic types, archetypes or typologies (Miles and Snow 1978; Miller and Friesen 1978); Strategy as a 'map' (Kaplan and Norton 2000). Generic strategies (Porter 1980); Strategy as a formalized plan of action (Chandler 1962), of the design and implementation of that plan (Thompson and Strickland 1998); Strategy as 'intent' (Prahalad and Hamel 1990); Strategy as an outcome of unique resource configurations (Aragón-Correa et al. 2008; Barney 1986; Peteraf 1993); Strategy as a pattern (Mintzberg 2007; Mintzberg and Waters 1985; Hambrick 1983); Strategy as 'practice' (Whittington 1996), and so on. The various theories diverge to such an extent that Mintzberg, Ahlstrand and Lampel (1998) document no fewer than ten strategy schools (such as the *design* school, the *planning* school, etc.).

The various literatures may serve to define strategy, but are somewhat incomplete in prescribing how to understand small business strategy. In a more practical manner, the question remains as to *how* to observe, measure and understand the strategies undertaken by small businesses. Various literatures have put forward two arguments; that small business strategy is simply an instinctive reaction to a dominant environment, and that the entrepreneur and the small business are really one and the same, hence by understanding the entrepreneur one also understands the business. However, as argued by Curran and Blackburn (2001), a small business does not mean a simple business, and complex and subtle actions and interactions will continuously take place within the small firm and in its dealings with the environment. Here, Mintzberg (2007) provides a possible solution, one that apparently triggered off this author's acclaimed interest in business strategy in the first place. Mintzberg describes his fascination with reading the text of Simon (1957), an eminent theorist in the field of management. Mintzberg (2007 p. 1) reacts to a passage in Simon's text by stating that: "*I was intrigued. If strategies could be, not only implemented after being 'formulated', but also be defined by behaviors, as they 'form', we would have a way to study the process empirically*". This is what Mintzberg (1978) and Hambrick (1983) term 'patterns in a stream of decisions, guiding a firm in its alignment with the environment, and shaping policy and procedure'. Mintzberg (2007 p. 1) observes; "*so what better way to study strategies, and the processes by which they develop, than to uncover patterns in organizations and investigate their origins*". Mintzberg adds a clarification by stating that the approach would not really be one of studying streams of decisions but of actions, as these are the traces most clearly left behind by organizations, and would also incorporate the deliberate and emergent decision-making processes that will have taken place.

The understanding of strategy as a pattern in a stream of actions allows for some important solutions. Firstly, it bypasses completely the problem of measuring strategy by looking for rigid strategy formulations in the shape of plans, documents or grand schemes. Chandler (1962 p. 13) may have been correct in defining strategy as "*the determination of the basic long-term goals and objectives of an enterprise*", but the author really was studying large American organizations (or more correctly, their structures), and not the dynamic small firm that acts more on gut, instinct, and in a heuristic manner (McCarthy 2003). Secondly, it allows strategy to be understood as acting along a deliberate – emergent continuum, where "*real-world*" strategies will be somewhere in between (Mintzberg 2007 p. 6), that is, neither fully deliberate nor fully emergent. Patterns observed will incorporate both deliberate actions, as well as emerging reactions, allowing for the external environment to be fully incorporated into the picture. Thirdly, the dynamics of strategic behaviour can now be taken into consideration. Arguments placed by Miles and Snow (1978) and Miller and Friesen (1980) regarding organizational momentum (a consistency in strategy implementation and direction) have been repeatedly challenged (e.g. Hanks et al. 1993; Zajac and Shortell 1989). Longitudinal studies have shown that organizations may, and often will, change their strategic behaviours over time and in accordance to necessity (e.g. Mintzberg 1978). This is especially true for the small firm where its more limited resource base will allow it to do so more freely. Studying patterns of strategic behaviour will allow for changes to be observed, so much so that Hambrick (1984, 2003) advocates focusing on strategic pathways or trajectories, and in grouping these into common patterns that provide understanding and meaning. Finally, strategy as a pattern can incorporate any, or all, of the various strategy schools. Be it an entrepreneurial firm, or a firm basing its actions on important political decisions, or a firm building competitive advantage through unique resource configurations, observed patterns of strategic actions can always be applied to understand the strategic behaviour of that firm. In conclusion, the texts of Mintzberg (1978), Burgelman (1983a, 1983b), Hambrick (1984, 2003), Mintzberg, Ahlstrand and Lampel (1998) and Mintzberg (2007) collectively contribute to the following set of seven concepts, or propositions, that serve to explain the meaning of business strategy:

1. Strategy concerns both the organization and the environment. The organization in fact uses strategy to deal with the environment.
2. Strategy is a conscious set of guidelines that determines decisions into the future.
3. The substance of strategy is complex, unstructured and non-routine, but can be mapped out as patterns in streams of actions as opposed to formal, pre-meditated plans.
4. Strategy and strategic decisions are long-range decisions that affect the well-being of the whole organization.
5. Strategy involves issues of both content (the state of the organization) and process (the actions taken and the processes that guide these actions).
6. Strategies are neither purely deliberate nor purely emergent, and are often somewhere in between.
7. Strategy involves various thought processes, analysis and conceptualizations at various levels within the business. Strategy can be induced by top management, autonomously developed at lower levels of the firm, or be a combination of top-down and bottom-up initiatives.

2.3 The Firm as the Unit of Analysis

A number of literature streams have evolved over recent years, arguing the case of placing a focus on the strategic behaviour of the firm as opposed to that of the owner-manager (or entrepreneur). The rationale to this logic is that firms are complex bundles of resources, and that observable firm behaviour will explain both how the resources are being deployed as well as how the antecedents to firm behaviour (such as owner-manager characteristics) act and interact to influence this behaviour. Various models of firm strategic behaviour shall be contrasted in this section, such as entrepreneurial orientation, small business orientation, and corporate entrepreneurship. Thus, a first focus shall be placed on the firm as a unit of analysis. For example, one of the earliest texts analyzing patterns of strategic behaviour in organizations is that of Mintzberg (1973), classifying organizations into a three-mode typology consisting of the *Entrepreneurial* mode, the *Adaptive* mode, and the *Planning* mode. In the *Entrepreneurial* mode primarily young organizations will look for new opportunities, seek to grow, and attempt to build domination, often guided by the vision of a powerful leader. In the *Adaptive* mode firms will struggle with a dominating or uncertain environment, and attempt to survive by incrementally making decisions according to internal and external constraints. In the *Planning* mode the environment will be more stable and an organization will set and enact goals in conformity with existing resources and well-defined targets. Mintzberg's theory is essentially a situational one; an organization can be any one of the three modes, or can oscillate between the modes over time and according to its life cycle or situational factors. Furthermore, parts of an organization could subscribe to one mode, whilst other parts to another mode.

Miller (1983) builds upon Mintzberg's (1973) earlier text and that of a number of key authors (Khandwalla 1977; Kets de Vries 1977; Miller and Friesen 1978, 1982) to establish a multidimensional construct for firm entrepreneurial behaviour. The author defines an entrepreneurial firm as "*one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations*" (1983 p. 771). This is an incremental development of Miller and Friesen's (1982) innovative scale used to distinguish between conservative and entrepreneurial firms, and is a theme subsequently used in empirical studies such as that of Covin and Slevin (1989) to match firm entrepreneurial behaviour with organizational structure and environmental dynamism. Miller puts forward a strong argument in favour of the firm, and not the individual, as the focus of research. The main argument is that firm entrepreneurial behaviour will be influenced by a number of determinants, such as the environment, structure, strategy and leader personality. Miller sees the critical factor to be the firm, that is, the way the firm acts and reacts to these determinants. This, in turn, depends upon the nature of the organization in question. This argument is substantiated by Miller's (1983) empirically derived taxonomy of firms, classified into a typology of *Simple*, *Planning* and *Organic* firms. The objective of the classification is to demonstrate how firms' entrepreneurial behaviour will change with changing competitive and environmental (both internal and external) conditions. *Simple* firms are the smallest, and their entrepreneurial behaviour is heavily correlated with leadership traits such as personality, power, knowledge, and locus of control. *Planning* firms are the largest, depend more on stable environmental conditions, and operate mechanistically with less leadership control over their actions. *Organic* firms are of medium size, thrive in a dynamic and hostile environment, have a diffused power structure, and are good at adaptation and at exploiting external challenges. By looking at the behaviour of the firm Miller also incorporates the contribution of the determinants, but only as antecedents to the actions and behaviours of the firm as the main element of focus. The gist of Miller's seminal work is that entrepreneurship can be stimulated in different ways and for different organization types; through leadership style in *Simple* firms, planning sophistication in *Planning* firms, and organizational structure in *Organic* firms. One has to note here two assumptions from Miller's (1983) and Mintzberg's (1973) texts; that small firms are simple firms, and that the manager/leader and the simple firm are effectively one and the same (or at best, one heavily correlated to the other). In fact, for the small entrepreneurial organization, Mintzberg (2007 p. 345) states that "*leadership dominates the strategy process... The rest of the organization, in contrast, tends to be malleable and responsive to that leader*". These two assumptions shall, however, be challenged in later chapters of this thesis.

The focus on 'firm behaviour' as opposed to that of the 'entrepreneur' takes up further momentum with texts such as that of Lumpkin and Dess (1996) and Borch, Huse and Senneseth (1999). Resource-based Theory is used to substantiate the argument, as this considers the integration of human, physical and organizational resource strengths within a firm. In a taxonomic study on the resource configurations of small firms, Borch, Huse and Senneseth (1999 p. 66) concede that "*we have considered competitive strategies as firm behaviour more than isolated characteristics or decisions of the entrepreneur/manager*". Lumpkin and Dess use the term entrepreneurial orientation (EO) to describe firm strategic behaviour as consisting of the processes, practices and decision-making that are characterized by five dimensions (as opposed to Miller's three).

These are autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness. Lumpkin and Dess build upon Child's (1972) arguments of strategic choice to enact these behaviours, positing that entrepreneurial orientation "*reflects the organizational processes, methods, and styles that firms use to act entrepreneurially*", (1996 p. 139). Autonomy is described as the ability and motivation to be self-directed in the pursuit of business opportunities. Innovativeness involves the firm's drive to engage in new ideas, experimentation, and creative ventures, possibly resulting in new product/markets or engineering processes. Risk taking is characterised by a firm that makes high and unsecured resource commitments with the intention of reaping above-average returns. Proactiveness is about taking the initiative and acting opportunistically in a bid to shape the competitive environment as opposed to react to it. Competitive aggressiveness looks at how the firm directly and intensely challenges its competitors as they vie for competitive advantage. Lumpkin and Dess conclude that EO represents the process aspect of entrepreneurship and should best be understood as a multidimensional construct directly impacting upon performance, with environmental and organizational variables acting as no more than moderating factors.

An attempt to assimilate the vast conceptual and empirical literature on EO can be seen in Rauch et al.'s (2009) meta analysis of 51 studies on EO, covering some 14,000 companies. The authors argue that EO has its roots in the strategy–making process literature, this strategy making being an organization-wide phenomenon incorporating aspects such as decision making, culture and organization mission. The meta analysis is based on Miller's (1983) three dimensions of EO, and seeks to study the dimensionality of this construct, its moderators, and relationships to performance. On the various arguments on EO dimensionality Rauch et al. (2009 p. 780) conclude that "*our findings support the idea that EO dimensions (innovation, risk taking and proactiveness) are of equal importance in explaining business performance. This would suggest that it is reasonable to support the use of a summed index of the three dimensions in future studies aiming at explaining performance*". EO was found to moderately influence performance ($r = 0.242$), and this positive relationship was substantially enhanced when moderators such as firm size (r increased to 0.345 for businesses with less than 50 employees) and industry dynamism were included, indicating that the smaller the firm size the stronger the EO – performance relationship. The authors posit that this changing relationship "*tells us something about the direct influence that the CEO has on the company"* although issues of causality prevail. Kreiser, Marino and Weaver (2002) empirically demonstrate, on a sample of small and medium sized firms, that EO does indeed consist of separate but complementary dimensions that can be studied separately or collectively.

The literature on EO then takes on a number of different directions, into that of small business orientation (SBO) and corporate entrepreneurship (CE). Runyan, Droge and Swinney (2008) argue that EO and SBO are two separate and independent constructs, with SBO defining a 'satisficing' approach by owner-managers to limit the business to a minimum of entrepreneurial activity. The authors observe empirically that for mature firms SBO relates positively with performance whilst for younger firms EO relates positively with performance. Stewart et al. (2003) look towards the difference between the two, naming EO as macroentrepreneurship and SBO as microentrepreneurship. Another differentiation comes from Carland et al. (1984), who distinguishes the small business owner as an individual who establishes and manages a business for the main purpose of furthering personal goals. The business will be the primary source of income and will demand the majority of the owner-manager's time and resources. The owner-manager will perceive the firm as an extension of her personality, intrinsically bound with family needs and requirements. One question, however, prevails. One has but to look at Schumpeter's (1934) five determinants of entrepreneurial behaviour; introduction of new goods, introduction of new methods of production, opening of new markets and of new sources of supply, and industrial reorganization. If EO and SBO are two forms of organizational behaviour, then a high level of entrepreneurial activities such as those defined by Schumpeter would denote an EO state whilst a low level, an SBO state. This begs the question to be asked whether EO and SBO are more along one continuum of high – low EO, as opposed to two entirely separate constructs. McCarthy (2003) would disagree with this, and goes as far as excluding "lifestyle firms" from her empirical study on SME strategic behaviour.

It is also pertinent to review how the literature on EO and that of corporate entrepreneurship (CE) has taken significantly different directions. The text of Ireland, Covin and Kuratko (2009) provides a comprehensive analysis of existing CE frameworks, and proposes an integrative model for the construct. Interestingly, the authors find existing EO models (such as those of Lumpkin and Dess 1996, and Covin and Slevin 1991) to be the most similar to the ensuing CE model. There are, however, significant differences as subsequently outlined in the authors' comparative text. The CE framework is shown to employ three levels; the firm, the entrepreneurial management and the organizational members. It is a linkage of individual-level entrepreneurial cognitions and organizational-level entrepreneurial outcomes. Covin and Miles (1999) contend that CE is an entrepreneurial philosophy that permeates an entire organization's outlook and operations. Similarly, Ireland, Covin and Kuratko (2009 p. 37) argue that "*CE strategy is reflected in three elements: an entrepreneurial strategic vision, a pro-entrepreneurship organizational architecture, and entrepreneurial processes and behaviours as exhibited throughout the organization*". This means that there must be a consistency of entrepreneurial behaviour at all organizational levels, so much so that the authors argue that strategy (in general) must be rooted in stability. In a similar position to that of Miles and Snow's (1978) Prospector firms, this CE approach thus has the advantage of including entrepreneurial management into the equation, and the disadvantage of providing another static model that assumes two things; that of strategic momentum, and that the model's antecedents will all collectively (and similarly) vary along a continuum from high CE to low CE. It is argued that CE has little applicability for the dynamics of the small firm, unlike EO as demonstrated by empirical studies such as that of Kreiser, Marino and Weaver (2002).

In conclusion, one can look at the text of Covin and Slevin (1991) to come up with two important themes relevant to the application of EO to understand small firm strategic behaviour. The first concludes upon the concept of the firm as an entrepreneurial 'being', in the logic that organizations can and should be viewed as entrepreneurial entities. "*To say that organizations, per se, can be entrepreneurial is not a subversion or misapplication of the construct of entrepreneurship. Rather, it is a defensible and meaningful assertion based on the fact that organizations, like individuals, can create new value for society through the thoughtful and productive assemblage of resources. Limiting discussion of entrepreneurship and the entrepreneurial process to individuals is unduly restricting*" (Covin and Slevin 1991 p. 20). Emanating from this argument is another. If organizations can behave entrepreneurially then this poses an advantage: "*Behaviour is, by definition, overt and demonstrable*" (Covin and Slevin 1991 p. 8). In other words, it is measurable and hence manageable. Two other arguments are pertinent to the concept of EO. Firstly, texts arguing the differences between SBO and EO should be regarded with caution. Possibly both orientations can coexist at two ends of a continuum. Secondly, the literature distinguishing EO and CE must be understood and put into perspective. Although similarity exists, they are two different constructs with different conceptual basis and placed in different literature streams. EO holds promise in understanding how small firms act and react in accordance to internal and external environmental conditions.

2.4 The Owner-manager as the Unit of Analysis

The literature has repeatedly argued that small organizations will be dramatically influenced by the personalities of their owner-managers. In a small organization "*the CEO can have an enormous impact – via his power, his face-to-face contacts with virtually all employees, his ownership, and the immediate effects of his expressed goals, perceptions and preferences*" (Miller and Toulouse 1986 p. 1393). The literature, however, takes on a number of different directions when trying to understand the behaviour of these owner-managers, looking at psychological traits, values, cognitive behaviour, heuristics, and learning patterns, amongst many others. The following text will attempt to put these dimensions into perspective, and to come up with one understanding of how to profile the owner-manager. The first focus shall be placed on personality, or psychological, traits. As an example, Covin and Slevin (1988) build upon the work of Khandwalla (1977) to form a scale to measure the management philosophy of the top management, or dominant coalition. The multi-item scale, from a range of 1 to 7, measures owner-manager entrepreneurial style ranging from highly conservative to highly entrepreneurial. Dimensions such as leadership style, innovativeness and proactiveness are incorporated into the scale. A different approach to analyzing personality attributes, or philosophical values, is that taken by Kroeger (1974) to map out owner-manager roles in a more dynamic fashion. Kroeger merges owner-manager personality traits, personal attributes and values into a typology of five possible managerial roles. The author argues that different roles are required at different stages of an organization's life cycle, and that managers of small firms can be trained to have qualities that allow them to function effectively in the five different roles. However, Kroeger does indicate that it is more possible to endow an entrepreneurial manager with functional skills than the other way round. Miller and Dröge (1986) empirically observe the influence of CEO personality, measured through a 'need for achievement' motivational scale, on the structures that the firms ultimately deployed. The smaller and younger the firm, the stronger the relationship was observed between need for achievement and organizational structure. Achievement-oriented CEO's would, for example, centralize power and employ techniques of formalization such as written policies and procedures. The objective was to command greater control over the work environment, and thus increasing their chances of personal achievement. The usual difficulty found with cross-sectional studies prevails; the issue of causality. In other words, does personality determine structure or does structure command certain personality traits to be more prominent or sought after?

Other studies focus on different traits, albeit in an often-isolated fashion. For example, Waldman et al. (2001) measure the influence of CEO leadership characteristics on the performance of Fortune 500 firms, characterised by transactional and charismatic leadership traits. Findings indicate no significant direct leadership–performance effects but did observe a strengthening of the leadership–performance relationship when perceived environmental uncertainty was included as a moderating variable. Miller, Kets de Vries and Toulouse (1982) posit that there should be an expected relationship between the personality of the CEO and the strategies and structures of the firm. The authors highlight the influence of the owner-manager's locus of control as "*an individual's perception of how much control he is exerting over the events in his life. An internal person is convinced that the outcomes of his behaviour are the results of his own efforts. In contrast, the external person believes that the events in his life are beyond his control and should be attributed to fate, luck, or destiny. Depending on these perceptions, it is assumed that there will be a considerable difference in behaviour*" (1982 p. 238). In summary, internals are expected to demonstrate more entrepreneurial qualities than externals. In an empirical study on large firms the authors observe a strong relationship between locus of control and strategy making behaviour and organizational structure, although causality issues remain outstanding. Miller and Toulouse (1986) measure the effect of locus of control, need for achievement and flexibility on strategy-making, structure and performance for a sample of "small" firms (average size at 382 employees although the authors classify these firms as small). Significant relationships were noted between various variable sets comprising the dependent and independent constructs. As common to cross-sectional studies, causality issues prevail.

However, Ling, Zhao and Baron (2007) argue that a mistaken focus is being placed on the personality variables of the owner-manager, such as locus of control and need for achievement. In fact, Baron and Shane (2007) posit that entrepreneurs' personalities primarily influence their own behaviours and are less likely to be transmitted to other members, as compared to personal values that can gradually be embedded into the firm's culture. In comparison between personality traits versus core values, Ling, Zhao and Baron (2007 p. 675) observe that "*an individual can demonstrate the personality characteristic of introversion (being somewhat withdrawn and shy in social contexts) but at the same time hold a value suggesting that being friendly and sociable is highly desirable (a value)".* The authors empirically evaluate the effect of two values; collectivism (sharing, cooperation and group harmony) and novelty (a tendency to value change, the new and the different), on the performance of some 92 SME's. A conclusion is reached that values lead towards competitive advantage, but only if the values are appropriate for the specific challenges and ventures being faced by the firm at a particular stage of its existence. The issue immediately arises here regarding how deep-rooted an owner-manager's values are, whether she will be capable of modifying her values if so required, or if professional management are to be pulled in with values more in tune with the targeted strategic direction of the firm. Churchill and Lewis (1983) in fact argue that small businesses often fail when owner-managers refuse to delegate to more professional management as firms grow and develop.

This focus on individual values is taken up by Meglino and Ravlin (1998) in a comprehensive review of the previous literature on the topic. The authors arrive at a number of conclusions not unlike those of Ling, Zhao and Baron: Values are seen to be an individual's personal beliefs about how he or she "should" or "ought" to behave; There is a high social act in values (i.e. what is allowed for in the particular context), so much so that value congruence has to be included into the equation; Values are relatively permanent, although can be changed under certain conditions. Meglino and Ravlin's (1998 p. 366) resulting conceptual model of "values effects" shows values to be influenced by genetics and socialization, and to influence in turn outcomes such as perception, decisions/behaviour, and performance. There will also be reinforcing feedback and moderating variables. Complementing Meglino and Ravlin's comprehensive literature overview is Hambrick and Mason's (1984) evaluation of how an organization is a reflection of its dominant coalition. The authors posit that "*if strategic choices have a large behavioural component, then to some extent they reflect the idiosyncracies of decision makers*" (1984 p. 195). Hambrick and Mason propose a model of how individual characteristics influence the organization's implementation of strategic choice, placing the psychological traits of cognition and values at the centre of the model. These psychological traits would induce a process of selective perception that ultimately directs strategic choice. Also, in similar vein to Meglino and Ravlin, the values and cognitive base of the dominant coalition can also directly influence strategic choice, say in situations where the values of the owner-manager override a perceived situation or solution of some sort. Hambrick and Mason advocate using observable (such as age, experience, education) as opposed to psychological traits (values, cognition, locus of control) due to the difficulty to measure these latter parameters. A different school of thought that complements the 'core values' argument is that of Edelson's (1988) psychodynamic approach. This school argues that there is a continuous interaction between an individual's innate emotional dispositions and her social context, starting from early years and gradually shaping the individual's patterns of response towards the environment. Edelson applies the psychological concept of 'life issues'; issues that have been ingrained into the individual's persona over many years and that tend to remain relatively constant over her lifespan. The author uses the theme of 'multiple determination', in that "*strategy will be chosen that eventuates in the gratification of the greatest number of wishes"* or issues (1988 p. 112). In a fine grained study on a small family firm, Kisfalvi (2002) empirically observes this theory in motion by focusing on the owner-manager of the firm, and the way in which he made strategic decisions over time. The owner-manager's life issues (survival, achievement and success, born out of a very difficult childhood) were observed to directly control his top strategic priorities (such as high involvement, opportunity seeking and product innovation), which in turn influenced the firm's strategic patterns over time. Kisfalvi (2002 p. 491) concludes that "*the strategies that a particular entrepreneur pursues are personally and emotionally meaningful*", consistently influenced by a set of emotionally charged life issues.

The issue of cognition and cognitive processes is also one of relevance to the small firm owner-manager. Research on entrepreneurship suggests two broad categories of factors that influence how individuals discover, and act upon, opportunities: 1) the possession of information adequate to identify an opportunity; and 2) the cognitive properties necessary to evaluate it (Shane and Venkataraman 2000). The authors argue that the cognitive entrepreneurial mindset engages in less counterfactual thinking, is less likely to experience regret over failed opportunities, and is less susceptible to inaction inertia. Cognitions are described as "*all processes by which sensory input is transformed, reduced, elaborated, stored, recovered and used*" (Mitchell et al. 2002 p. 96). Combe and Greenley (2004) carry out a detailed literature review on the various cognitive models relating to strategic flexibility, that is, the ability of the firm to respond and adapt to environmental change. The authors argue that "*cognitive models are thought to be responsible for constraining the way decision-makers think, and this we suggest influences their consideration of decision-making options, and hence strategic flexibility*" (2004 p. 1461). Cognitive models identified by the authors are various, and include: The rational cognitive model that emphasizes the human brain's capability to receive, organize and interpret information; The developmental cognitive model that focuses on the belief in the importance of adapting (new resource configurations) through learning from past experiences; The deterministic cognitive model that argues that there is little freedom of choice and the direction of decision making is determined by events outside the control of management, thus demanding a particular management mindset; The probabilistic cognitive model that argues that strategy is modified by probabilistic interaction with environmental factors; and the chaos cognitive model that argues that there is little rationality in the business environment and that managers have to learn to address complexity and unpredictability. Research on an information-processing (I-P) cognitive model by Pech and Cameron (2006) holistically maps out the entrepreneur's opportunity recognition process, showing that entrepreneurs actively seek opportunity-laden information in order to satisfy internal motivators such as need for achievement.

The various cognition models converge upon a common theme; psychological and sociological characteristics and subsequent decision behaviours play an important part in business success. Entrepreneurs actively search for opportunity-laden information (Pech and Cameron 2006). Entrepreneurial cognition involves the use of heuristics to piece together limited information in situations of decision uncertainty and complexity, allowing also for faster learning (Wright, Hoskisson and Busenitz 2000). Mitchell et al. (2002 p. 97) define entrepreneurial cognition as the "*knowledge structures that people use to make assessments, judgements, or decisions involving opportunity evaluation, venture creation, and growth*". Manimala (1992) empirically confirms the common use of heuristics in decision making by entrepreneurs. Alvarez and Busenitz (2001 p. 758) posit that "*recent research on cognition indicates that entrepreneurs use heuristics in their decision-making more than their managerial counterparts in large organizations. Consequently they often make significant leaps in their thinking leading to innovative ideas that are not always very linear and factually based*". Heuristics can be described as simplifying strategies used in complex and uncertain situations to make decisions, as the process of gaining knowledge by intelligent guesswork rather than through a hypothesized formula. This cognition-heuristics debate may serve to explain an important issue: Empirical research on what characteristics make an entrepreneur is scattered and inconsistent. For example, Palich and Bagby (1995) observe that entrepreneurs did not vary significantly in their responses to a risk propensity scale when compared to non-entrepreneurs, implying that they were just as risk-averse. The cognitive-heuristics logic takes a different path to the assumption that entrepreneurs are risk-takers, arguing that it is how the data is framed and understood that explains the entrepreneurial being. In other words the outcome of the entrepreneur's behaviour may appear risk-oriented, but the rationale for the behaviour is really a cognitive mindset that perceives the world in a somewhat different (and more positive) perspective.

A model that builds upon those of Hambrick and Mason (1984) and Meglino and Ravlin (1998) to describe an all-inclusive interaction between personality traits, core values and cognitive processes is provided by Busenitz and Lau (1996). The authors provide a parsimonious model that describes an all-important link between social and psychological contexts, between cognitive structure and cognitive process, and between conditions, actions and consequences. The independent variables are three constructs (the simplified model does not show inter-linkages and feedback loops); social context, core values (taken as Hofstede's cultural values), and personal variables (such as risk taking, locus of control and achievement motivation). In fact, achievement motivation, risk-taking propensity and innovativeness are the three psychological factors most associated with entrepreneurship (Stewart et al. 2003 p. 29). These independent constructs impact upon the entrepreneur's cognition, identified through a structural perspective (the schema; labels, pictures and meanings assigned to persons and events in the social environment) and a process perspective (the heuristics; a process by which knowledge is received and utilized). The resulting cognitive behaviour will ultimately impact upon the entrepreneur's decision making actions. Busenitz and Lau (1996 p. 30) argue that, due to an often small organization size, entrepreneurs have "*a very complex decision-making context, a context where simplifying biases and heuristics can have great deal of utility in enabling entrepreneurs to make decisions in a timely manner*". What the model also argues, however, is that the higher (or lower) resulting entrepreneurial behaviour is grounded in core values, values that will not change easily. In fact, entrepreneurs will have "*higher power distance, higher individualism, lower uncertainty avoidance, and higher masculinity*" (1996 p. 31). Under this argument it would be very difficult to make an entrepreneur out of a non-entrepreneur, an issue strongly supported by Miles and Snow (1978). This would imply that the small business owner-manager who does not have entrepreneurial characteristics will simply not have the entrepreneurial aptitude required to take hold of conceptual, abstract and often tacit information, and to act upon this information. Looking at the previous section to this chapter, it becomes more understandable that researchers often adopt the polar classification of EO managers versus SBO managers.

Two remaining issues stand out in the debate on entrepreneurial behaviour; those of cognitive learning and of group dynamics. Both issues tie down to the dynamic nature of entrepreneurial behaviour. For example, Carroll and Mosakowski empirically observe over 2,000 respondents over a number of years, looking at the fluctuations of entrepreneurial behaviour as demonstrated by self-employment initiatives. The authors observe that "*there has been a strong reliance on the assumption that entrepreneurship is associated* *with some stable set of individual characteristics. There is little appreciation of the possible transitory nature of the entrepreneur's status*" (1987 p. 571). A similar argument has been placed by Shane and Venkataraman (2000 p. 217) in that "*entrepreneurial behaviour is transitory*". By using a life cycle perspective of entrepreneurship (as seen through self-employment initiatives) Carroll and Mosakowski gain an image that is far different to the usual static cross-sectional perspective. Individuals would show entrepreneurial behaviour at various possible points in time, and in accordance to historic/background issues, social structures, personal characteristics, changing circumstances, and so on. This could explain Mitchell et al.'s (2002 p. 94) observation that researchers have been so far unable to identify a unique set of personality traits that characterize the entrepreneur; "*why are some people and not others able to discover and exploit particular entrepreneurial opportunities*?"

One possible way of distinguishing entrepreneurial behaviour is by studying how they learn and then act upon their learning, an issue of strong debate within the literature. A useful comparison is made between single-loop and double-loop learning by Jashapara (2003). Single-loop learning results in "doing things better", by detecting and correcting errors leading to a modification of rules within an accepted set of governing variables. Alternatively, double-loop learning results in "doing things differently" due to the learner challenging the basic assumptions underlying the governing variables. Evidence of this concept of doing things differently can be seen in the observation of Alvarez and Busenitz (2001 p. 759) that "*while the entrepreneur may have specialized knowledge it is the tacit generalized knowledge of how to organize specialized knowledge that is the entrepreneur's critical intangible resource*". This double-loop learning is also touched upon by Lei, Hitt and Bettis (1996), as a means by which an entrepreneurial firm can achieve a core competency by becoming a learning organization, thus solidifying its competitive advantage. The authors argue that "*organizational learning must be focused on building effective, complex problem-defining and problem-solving heuristics that become the basis of competitive advantage*" (1996 p. 552).

In line with established Resource-based Theory requisites of uncertain inimitability and causal ambiguity, this double-loop learning uses difficult-to-imitate heuristics and insights for solving highly ambiguous challenges, something that routinised single-loop learning does not manage to achieve. The importance of learning is well understood, particularly since learning is only achieved where it becomes or leads to some intention to behave in a modified way (Sullivan 2000). So the evident challenge to be solved would be to teach non-entrepreneurial owner-managers to adopt a more entrepreneurial posture, assuming that this is wanted in the first place. Sullivan (2000) sees this challenge as one of getting owner-managers to learn from what teaches them most; experience. It is getting them out of single-loop learning and encouraging and facilitating the adoption of double-loop learning. This would be akin to adopting, at least for some, a new style of cognitive behaviour. However, Busenitz and Lau (1996), Hambrick and Mason (1984) and Meglino and Ravlin (1998) would most certainly argue the limitations of this, pointing to the influence of established core values (or life issues) on the cognitive mindset of the owner-manager.

In conclusion, small businesses are often shown to fall into batches of different levels of entrepreneurial behaviour, so much so that a simplification is often made when values, social backgrounds, psychological traits and cognitive behaviours are meshed together into a polar classification of entrepreneurs versus small business owners. Strategic group theory can provide for an additional understanding here, and as argued by Panagiotou (2006 p. 452); "*from a perspective of an individual firm, the fact that managers from the same strategic group have perceptions that are relatively similar with each other, and that these differ from those managers in firms from another strategic group suggests that over time, managers from the same strategic group become more like-minded as a consequence of interaction and cross-influencing. Consequently, these managers form a 'school of thought' that subsequently reinforces this frame of mind*". In other words, cognitive behaviour emanating from social, value based, psychological, and situational variables will be reinforced in conjunction with the behaviours of other like-minded individuals that the owner-manager will perceive in her competitive environment. Panagiotou (2006) argues that the potential of this like-mindedness has strong repercussions because managers may become locked into a similar way of thinking and acting. As a result, it may become harder for these owner-managers to see outside the confines of these mental boundaries. In such an environment, imitation will become common place. With this concluding theme, an argument regarding the drivers of owner-manager behaviour, as well as their ensuing behaviours, can be proposed: Not all owner-managers are the same, as established by their core values, social backgrounds/histories, and key psychological traits. These antecedents will influence the cognitive mindset of the owner-manager, the way the world is seen, and the way in which the owner-manager will learn and adapt. Different perceptions of the competitive landscape will be made, and then acted upon. Patterns of action will be observed and may induce strategic groups of like-minded individuals whose behaviours further reinforce the perceptions, and subsequent actions, of the group. An example of this was often seen in the research in question, for example in industrial estates where all carpenters (purposely grouped there) would have a single employee (the owner-manager), they would all be sole traders, they would all vie for a small niche of consumers with particular tastes, and they would build similar resource bases and charge fairly similar rates, and so on.

A concluding comment to this sub-section needs to be made regarding the use of the word "entrepreneur". In an excellent argument by Hornaday (1990), small business research has been seriously hampered by the use and misuse of this term, by misconceptions that apply, and by inconsistencies in definition and in application. The author likens the word "entrepreneur" to the word "warrior", a term that can mean so many things in so many different combat situations. Hornaday advises on labeling the owner-manager differently, looking into whether he/she is a professional manager, a craft-based practitioner, or a wealth seeker. In the following text and research a focus shall be placed on the owner-manager (not the entrepreneur), although arguments shall be made regarding owner-manager behaviour ranging from highly entrepreneurial to highly conservative in nature. Furthermore, the concept of 'dominant coalition' will be used, signifying more than one owner-manager working in unison at the top strategic level within an organization.

2.5 The Firm and the Owner-manager: An Integration of Both Units

Since "*the founding entrepreneur exerts a tremendous personal influence on the strategy and structure of his firm*" (Miller and Toulouse 1986 p. 1406), then an argument can be put forward that the firm and the entrepreneur are essentially one and the same. But just where does a divide come in? Where do we stop (or start) looking at the owner-manager and the firm as separate units of analysis? Possibly the amalgamation of small firm behaviour and owner-manager characteristics starts off as early as 1934, with Schumpeter's (1934 p. 77) descriptions of the entrepreneurial individual: "*The entrepreneur of earlier times was not only as a rule the capitalist too, he was often – as he still is to-day in the case of small concerns – his own technical expert, in so far as a professional specialist was not called in for special cases. Likewise he was (and is) often his own buying and selling agent, the head of his office, his own personnel manager… and it was performing some or all of these functions that regularly filled his days*". An example of this expectation that the individual and the (small) firm are one and the same is Carland et al.'s (1984) comparison of the small business venture to the entrepreneurial venture. According to the authors, a small business venture, which is void of any true innovative behaviour, will likewise be owned/managed by a small business owner whose principal objectives are personal and family needs. An entrepreneurial venture will focus upon growth and innovation through an entrepreneur who is characterized by innovative behaviour.

An empirical study on SME's by Sadler-Smith et al. (2003) comes to a similar conclusion. Owner-manager entrepreneurial behaviour, firm entrepreneurial style (measured through a modified version of Covin and Slevin's [1988] scale), and firm growth were correlated and revealed a positive relationship between certain entrepreneurial behaviours (of the owner-manager), firm entrepreneurial state, and growth. Limitations were outlined due to the cross-sectional nature of the study. Covin and Slevin (1988) seek to match the entrepreneurial behaviour of the top management with the organizational structure of the business using a wide sample of 80 organizations from 40 different industries, but biased towards large companies (average number of employees at 4320). The study concluded that there was strong support for the argument that organically structured firms performed better when run by entrepreneurial managers, whilst mechanistically designed firms performed better when run by conservative managers. Causality issues remained outstanding, such as the question whether performance could influence structure and management in return. This study is complemented by another empirical study (Covin and Slevin 1989) on 'small' firms in hostile and benign environments. The trend is repeated and an association is made between firm entrepreneurial behaviour, organic – mechanistic structure, and the hostility of the environment. However, the focus here is placed on a sample of medium sized firms (average of 73 employees with average sales of $8.2 million) not small, and primarily involved in manufacturing.

In an opinion paper focusing on whether firm level analysis has reached its limits, Scott and Rosa (1996) argue that much of the recent literature and research has incorrectly focused on the firm as a fundamental unit of definition and analysis. The authors argue that if one is to continue studying the small firm (as paramount and underlying all other key assumptions), then that is all one will ever see. The authors see this firm-centered focus as an underlying assumption in recent small business research, one that is rarely questioned. Scott and Rosa posit that it is the entrepreneur who, through value-adding activities, uses the organization as a means to an end, to accumulate capital and further resource value. The firm is but a mechanism for this process of value adding activities. The authors see a real gain in shifting the focus of small firm research away from the small firm itself, and onto the entrepreneur operating within the firm (and outside of it for that matter). The authors advocate looking at the entrepreneur in her actions and activities both within the firm and outside, such as in the multiple ownership of more than one business (and the effect of this on decision making within the particular firm). Scott and Rosa note that in many research databases, the data on the firms and on the individuals 'do not talk with each other'. An example of why the focus should 'also' be on the entrepreneur is that the entrepreneur may (and will) carry out value adding activities outside the firm, with these activities impacting upon the behaviour and performance of the firm. Spill-over effects from networks or multiple network ownership will impact upon the entrepreneur's decision making behaviour within the firm. In conclusion, one needs to understand the entrepreneur within the firm, such that "*if one wishes to understand the entrepreneurial process, one must understand the role of the individual in triggering that process*" (Kisfalvi 2002 p. 491).

However, an opposing problem also exists, that of psychological reductionism. The term signifies the action of deriving events occurring at one level of the organization from those occurring at another, possibly a more simple and fundamental level. In this context it is inferring firm behaviour from the owner-manager behaviour. Kimberly (1979 p. 443) posits that "*there is considerable controversy among organizational theorists about the advisability of attributing organizational outcomes to the particular characteristics of particular individuals. Sociologists label such attribution psychological reductionism. They argue that organizational analysis is most fruitfully pursued apart from the considerations of individual personalities and motivations*". So once again, the argument of alignment and of owner-manager – firm integration arises. An interesting argument is put forward by Entrialgo (2002) regarding the alignment of the owner-manager with the firm. Entrialgo argues that the process by which the owner-manager influences the firm is often overlooked, with most existing studies incorrectly assuming that the characteristics of the owner-manager will have an independent, direct relationship with organizational strategy and performance. The author proposes a tripartite model encompassing three constructs; firm strategy, owner-manager characteristics, and performance, positing that "*it is the coalignment between managerial attributes and organizational strategy that affects performance*" (2002 p. 262). In an empirical study on SME's in Spain, the author arrived at a conclusion that there is an evident alignment between the more entrepreneurial management characteristics, the more entrepreneurial firm strategic actions, and organizational success. This correlation was, however, lost when observing the conservative end of the continuum. Entrialgo's concept of coalignment is far from a new one, however, and earlier empirical studies such as that of Thomas, Litschert and Ramaswamy (1991) have utilized contingency theory to arrive at similar conclusions. Drazin and Van de Ven (1985 p. 520) provide a highly relevant comparison of contingency theories, positing that the 'systems' approach is highly applicable to measure firm strategic fit: "*The systems approach has begun to incorporate the general systems theory concept of equifinality by interpreting fit as feasible sets of equally effective alternative designs, with each design internally consistent in its structural pattern and with each set matched to a configurational of contingencies facing the organization*".

Adopting Drazin and Van de Ven's (1985) 'systems' contingency theory, Thomas, Litschert and Ramaswamy (1991) empirically map out top executive characteristics, firm strategic orientation (using part of Miles and Snow's [1978] typology; that of Prospectors and Defenders) and business performance in a tripartite model aiming to relate coalignment with performance. Similarly to the work of Entrialgo (2002), high coalignment was found between Prospector firms, entrepreneurial management characteristics, and higher performance levels. Of interest is the fact that, also in similar vein to the Entrialgo case, the coalignment – performance relationship lost its strength for Defender firms that were at the other end of the entrepreneurial – conservative continuum. Whilst Miles and Snow's typology will be discussed in further depth later in the thesis, it is interesting to note that these authors do state that entrepreneurial managers can, and will, successfully run conservative – style firms. This may confuse or derail the coalignment concept if mechanistically applied to the less entrepreneurial firms. Miles and Snow (1978) argue that it takes an entrepreneurial manager to run an entrepreneurial firm (high coalignment visible here). However, they also argue that an entrepreneurial manager can run a more static, conservative firm, or even move a more entrepreneurial firm in a more conservative direction (low coalignment will be visible in this case). Thus, coalignment may suffer from the same problem seen in the previous CE literature, at least until the conditions for high – low coalignment are challenged, or at least, re-defined.

From the diverging literature streams a number of conclusions, or at least observations, can be made. Firstly, the firm can be viewed as an entrepreneurial being, with measurable behaviour spanning a continuum from highly conservative to highly entrepreneurial in nature. Resource-based Theory moves the firm from that of a black box towards that of a dynamic entity that creates unique (and possibly dynamic) resource bundles to allow it to build and sustain competitive advantage. EO, or indeed SBO-EO, can be applied to understand the strategic behaviour of the firm. CE is too rigid in its coalignment concepts, particularly for the dynamic small firm. Secondly, the owner-manager of a small firm will have a huge influence on the firm. Behavioural patterns of the owner-manager can best be understood through their core values – life issues and key psychological traits, that will influence their cognitive – heuristic behaviour and the way the competitive landscape is seen and acted upon. Strategic groups can serve to create consistencies or replications of strategic behaviour. Finally, the literature has pointed towards coalignment, or strategic fit, between the owner-manager and the firm as a means of achieving organizational synergies. The fundamental and powerful impact that the owner-manager makes upon the firm demands this coalignment. However, a note of caution is sounded here. Existing empirical studies that commonly use cross-sectional methodologies will not fully explain the dynamics and intricacies of small firm – owner-manager coalignment. Longitudinal studies will, but will not provide the sample sizes needed to make effective comparisons between low coalignment firms and high coalignment firms. A different methodological approach is urgently required here, one that both looks at the dynamics of coalignment and that gives enough numbers to provide at least a typology of high versus low coalignment firms.

2.6 The Business Environment and the Small Firm

Understandably, the business environment external to the firm is one of an interaction of a complex medley of variables, so much so that "*the external environment, for example, can be operationally defined in terms of forces or elements that are too numerous to incorporate in a specific sense in a single model*" (Covin and Slevin 1991 p. 20). The academic literature will place the firm at the centre of a task environment, simplified by Porter (1980) to consist of the competing forces of suppliers, substitute products, buyers, potential new entrants and rival firms. This simplification of the industry value chain (and of Industrial Organization Economics SCP paradigm) camouflages the fact that various industries will in fact be involved, and this at each different level of a product or service's value chain. Complicating the picture further is the influence on this industry and competitive environment of more general overarching factors, such as population demographics, the influence of regulation/legislation, economic influences, technological developments/trends, and changing societal values and lifestyles. More so, these influences may be local, regional or global, with influences and effects interacting and covarying in often-unpredictable manners. To add to the picture, the literature puts forward the arguments of actual versus perceived environment, as well as the influence of the actual environment on the decision maker's perception of the environment. It is no wonder that conclusions reached on the environment's influence on the firm are often contradictory and inconsistent. The following text shall review the relevant literature with an aim of relating the small firm, and its strategic behaviour, to the external environment within which it operates.

Of interest to note is how the various authors frame the external environment. For example, Covin and Slevin (1989) define hostile environments as characterized by precarious industry settings, intense competition, overwhelming business climates, and a relative lack of exploitable opportunities. Non-hostile or benign environments, on the other hand, provide a safe setting for business operations due to their overall level of munificence and richness in investment and marketing opportunities. Miller and Toulouse (1986) define environmental dynamism as containing the components of predictability of competitor and consumer behaviour, degree of change in technology, and rate of obsolescence of product designs/marketing practices. Mitroff, Mason and Pearson (1994) describe the external environment for many companies as being characterized by turbulence associated with globalization, deregulation of markets, changing customer demands and increasing product-market competition.

A first question that begs an answer regards how firms will behave in the face of adverse environmental conditions. The literature here is somewhat contradictory. For example, Covin and Slevin (1989) observe a significant but negative relationship between environmental hostility and performance for small firms, irrespective of the firms' entrepreneurial orientation or even their structure. Covin and Covin (1990) conclude that aggressive firms initiate actions that competitors respond to whilst passive firms typically respond to actions that others initiate. Dess, Lumpkin and Covin (1997) observe that firm entrepreneurial orientation is most strongly related to performance when combined with an appropriate strategy (e.g. Porter's *Differentiation* strategy) and a heterogeneous, uncertain environment. Similarly, Zahra and Covin's (1995) longitudinal analysis of the effect of EO on organizational performance demonstrates the moderating effect of environmental hostility on a firm's EO-performance relationship, concluding that the relationship strengthened with time as well as with increased environmental hostility. In somewhat of a contradiction, Miller and Toulouse observe that flexibility appears to be more associated with success in stable as opposed to dynamic environments: "*No convincing explanation for this comes to mind. It may be that the strategic stagnation can* *occur more frequently in stable settings and that CEO flexibility helps avoid this*" (1986 p. 58). Also in contradiction to common expectation is the finding by Wiklund and Shepherd (2005) that the more entrepreneurial firms actually performed better in a stable environment and with a low access to capital. Conversely firms with a low entrepreneurial orientation appeared to perform best in a dynamic environment with high access to capital.

The literature on small firms and their environments is no more conclusive. As argued by Miles, Covin and Heeley (2000 p. 64) "*relatively little is known about how small firms respond to environmental dynamism, both structurally and strategically*". The majority of empirical studies on the influence of the environment on the firm have been based on samples of medium to large sized organizations. Even the studies citing a focus on small businesses often look at firms with below 500 employees, a sizing that in no way relates to the E.U. classification of small firms at below 50 employees. From the limited studies comparing the different reactions that small versus large firms have on environmental dynamism, evidence shows that small firms act and react differently to their large counterparts. For example, Dean, Brown and Bamford (1998) empirically observe that industries conducive to product differentiation and to niche dynamism were inducements to small business, more than large business, formations. Conversely, industry concentration was a greater deterrent to large firm formations. These findings are understandable, given small firm resource configurations and more flexible behaviours, but do not provide answers regarding how small firms proceed to perceive and act upon the environment in question. In an empirical study of "small firms" (below 500 employees), Miles, Covin and Heeley (2000) observe that the structures of the firms in a dynamic, as opposed to stable, environment were significantly more organic, and the firms showed significantly more entrepreneurial strategic postures. This result mirrors the earlier empirical observations of Covin and Slevin (1989) on small firms (average of 73 employees per firm). Also, an issue of relevance is the resource base of the small firm, in that "*small firms generally have more limited resources… fewer formal systems and procedures in place and perform fewer planning activities*" (Ebben and Johnson 2005 p. 1251, p. 1252). This means that the firms will be less "embedded" in their environments, with arguments in favour of accumulating resources to counteract environmental turbulence (e.g. Jauch and Kraft 1986) no longer holding the same significance. In fact, Covin and Slevin (1989 p. 75) argue that "*the adverse impact of environmental hostility probably presents an even greater threat to small firms due to their limited resource bases and relative inabilities to survive the consequences of poor managerial decisions*".

Conversely, Pelham (1999) posits that a simpler small firm organizational structure, heightened flexibility, and greater speeds may result in a greater ability to respond to adverse environmental conditions.

The concept of environmental uncertainty, or perceived environmental uncertainty, may provide somewhat of an answer to the diverging literature streams. Factors of environmental uncertainty include the degree of predictability of financial and capital markets, government regulation and intervention, actions of competitors, actions of suppliers, and the general conditions facing the organization (Hrebiniak and Snow 1980). Executives' perceptions of the environment frame their definitions of the issues facing their company and the actions it takes (Zahra and Pierce 1990). Yusuf (2002) defines 4 dimensions relating to this *environmental uncertainty* construct: Uncertainty from government, referring to political, regulatory, economic and legal actions that may impact upon an organization; Competitive uncertainty, referring to the aggressiveness of competition; Technologic uncertainty, relating to shifting technological trends within industry; Uncertainty in access to financial capital. Yusuf empirically establishes that environmental uncertainty is significantly related to EO, especially so for the uncertainty dimensions of technological development, access to capital and competitive uncertainty. Possibly a volatile technological environment and the resulting competitor responses, coupled with the difficulty to access capital, require firms to act entrepreneurially in order to survive. Verreynne, Scheepers and Meyer (2009) observe that, for small service firms, the EO-environmental uncertainty relationship is country specific, meaning that different definitions of environmental uncertainty are required for different contexts. On the application of organization design, Miles and Snow (1978) observe that the organizational structures established by firms are more an outcome of the management's perception of the environment than a correlation with objective measures of the environment. The authors argue that a manager's perception of the environment is influenced by how he or she progresses within the company, his education, knowledge and experiences, and also the company's strengths and weaknesses (in that the environment will be "seen" from a company situational viewpoint). Thus, orientation towards the environment is biased towards only a limited part of the environment that is perceived as important by the manager. Miller and Toulouse (1986 p. 57) argue that environmental dynamism and environmental uncertainty are really one and the same, and can be measured through three constructs; the predictability of competitor and consumer behaviour, the degree of change in technology, and the rate of obsolescence of product designs and marketing practices.

An interesting finding on the relationship between environmental uncertainty and level of planning sophistication was empirically observed by Matthews and Scott (1995) on a sample of small firms with an average size of 32 employees. The authors carried out a factor analysis on results obtained from a multiple scale of environmental uncertainty, concluding that four subsets were prominent; input/output uncertainty (uncertainty on suppliers, customers and distributors), government uncertainty, competitor uncertainty, and financial market uncertainty. Matthews and Scott observe that under conditions of heightened uncertainty instead of engaging in formal strategizing the firms tended to focus on “doing” rather than “planning”, with their actions largely based on intuition. In other words an inverse relationship was observed; when uncertainty increased, formal strategizing was less utilized. The authors also note that the more entrepreneurial firms in general tend to carry out more formal planning than the more conservative firms. Waldman et al. come up with, and empirically confirm, an interesting hypothesis regarding the relationship between leadership traits and environmental uncertainty. The authors observe that leadership traits particularly matter under situations of high uncertainty, such that “*the assurances, confidence, and vision of the leader is a source of psychological comfort for the followers, thus reducing their stress by showing how uncertainty can be turned into a vision of opportunity and success*” (2001 p. 136). Freel (2005) empirically observes the engagement of small manufacturing and service firms in innovative product/service creation, and concludes that each type will perceive different environmental uncertainties; manufacturing firms being more concerned with perceived *supplier* uncertainty whilst service firms concerned with perceived *human resource* uncertainty. A correlation was noted where firms that were being more innovative generally tended to perceive less of a hostile environment.

Milliken (1987) expands upon the concept of perceived environmental uncertainty, outlining how confusion reigns regarding whether the phenomenon in question relates to the actual state of the firm’s environment or a perceptual phenomenon, that is, as seen from the eye of the beholder. Jauch and Kraft (1986) term these “objective uncertainty” and “perceived uncertainty” respectively. Milliken observes that issues and misconceptions have abounded for years, concluding that “*research on environmental uncertainty reached a peak of popularity in the 1970s and since has fallen off dramatically*” (1987 p. 135). Three forms of perceived environmental uncertainty are discussed by the author; state uncertainty where the organization lacks information on the nature of the environment, effect uncertainty where the firm lacks knowledge of how the environment will impact upon the firm, and response uncertainty where the firm lacks knowledge regarding the consequences of its reactions towards the environment. All three uncertainty scenarios stem from a lack of information and of insights. Milliken argues that the three scenarios should be differentiated as they are caused by different information/knowledge gaps and elicit different coping responses. In Jauch and Kraft's (1986 p. 785) model for environmental uncertainty, the environment directly impacts upon the objective environment and the objective uncertainty of a firm, that will in turn influence perceived uncertainty (and resulting strategy making) but will also directly impact upon the firm's performance. Hambrick (1981b p. 253) hints at the objective – subjective environmental uncertainty debate in that "*organizations are 'embedded' in their environments, but often loosely so. They have some leeway for navigating…Organizations may pursue strategies seemingly at odds with the environment because of the values and internal political processes of their dominant coalitions or because of their assessments of their relative strengths and weaknesses*". The main argument placed is that perceived environmental uncertainty mediates between the objective environment and a firm's strategic response (Matthews and Scott 1995).

The earlier literature on owner-manager cognitive behaviour and the above text on the objective versus perceived business environment can be integrated to put forward a model for how the small firm may perceive, and react to, the external environment. Based on the literature, in particular Jauch and Craft's (1986) environmental uncertainty model and Freel's (2005) observations on small firms, Figure 2.2 is proposed as a conceptual model explaining how the small firm interacts with the external environment. The parsimonious model depicts the objective external environment as a sequence of pluses and minuses, signifying the positive and negative factors that may impact on the small firm in a particular context. This could be compared to Porter's (1980) environmental opportunities and threats, and must be appreciated as a dynamic set of covarying factors. In line with the previously described cognitive – heuristic behaviour, owner-managers will perceive the objective environment in different ways, depending on their conservative – entrepreneurial philosophical mindset. This, in turn, is contingent upon the core values and life issues that determine how the owner-manager will perceive (and react to) the world around her. Also, Nadkarni and Barr (2008) put forward an important argument about the direct influence that the objective environment has on strategic actions taken by top management. This concept of 'deterministic logics' is shown as a dashed line in Figure 2.2, and represents the direct influence of "*environments as concrete, hard, measurable and determinant*" (2008 p. 1398). The authors argue that this deterministic influence on strategic actions will be felt outside of, and in inclusion to, the subjective perception of the environment. This means that a particularly negative objective environment could act to sway the decisions taken by owner-managers, possibly towards initiatives that now appear to have more beneficial opportunity costs.

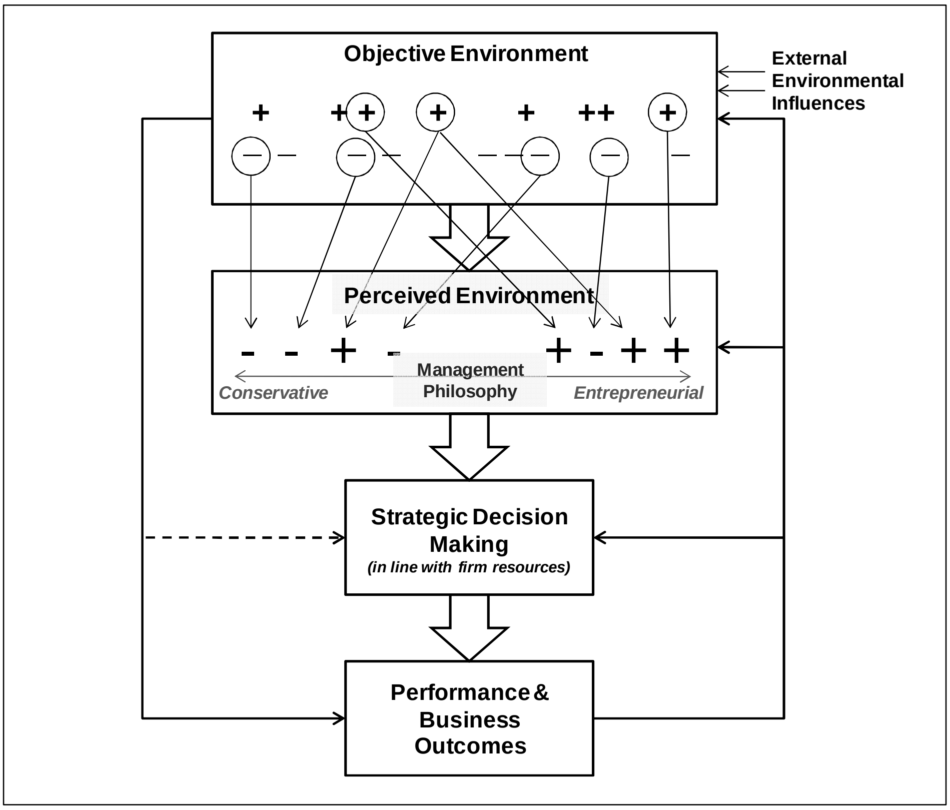


Figure 2.2: Interaction of the Small Firm and the External Environment

The objective environment is influenced by external environmental occurrences, and will also be capable of directly affecting the firm's performance outcomes, particularly due to the size and resource limitations of the small firm. According to the management philosophy, the owner-manager will perceive the objective environment as being more aggressive and full of threats, or munificent and full of opportunities. Strategic decisions will be made and, in line with the firm's resource base and its own strengths and weaknesses, will influence performance outcomes. The performance outcomes will, in turn, impact upon further strategic decisions, upon the owner-manager's perceptions, and even upon the objective environment (say in the case of a firm launching a successful new product or service). A spiral of momentum can be envisaged, with the more entrepreneurial firms building momentum in perception–action–performance–perception towards new products/services/challenges, as would the more conservative firms towards more efficiency-based goals. This is in no way to say that the environment does not matter, but that a more optimistic perception of the environment will result in different strategic decisions being taken as compared to a more pessimistic view of that same environment. Also, there is no attempt to argue that the more entrepreneurial firms are generally better off in their behaviour, Miles and Snow (1978) put forward an excellent argument here (in line with the concept of equifinality) regarding equally successful Prospector firms and Defender firms.

2.7 The Firm's Life Cycle and Small Business Strategy

It is the expectation that "*businesses differ by life cycle stage in what strategies they can and should pursue*" (Hambrick 1984 p. 32). Hambrick argues the concept of strategy as a dynamic phenomenon, one that can be viewed as a pathway between identifiable life cycle stages. This logic is mirrored by Ling, Zhao and Baron (2007 p. 674) who posit that "*organizations move through different stages over time, with each stage posing unique challenges to the organization and requiring different management philosophy and approaches*". The classical business life cycle is probably best documented in Mintzberg and Waters' (1982) longitudinal study that tracks the strategic changes of a particular retail chain over its 60-year life history. The authors mapped out the changing strategic behaviour and resulting structures of the chain against changing environmental conditions over the years, identifying clear stages of birth, growth, maturity and consolidation. As argued by Mintzberg and Waters (1982 p. 491); "*in this study are seen the classic stages of development cycle as described by a number of management theorists*". Another longitudinal study is that of Miller and Friesen (1984), analyzing 36 companies through a secondary database spanning over 20 years. The authors identify five life cycle phases from the literature (birth, growth, maturity, revival and decline), and assigned the firms to these based upon environment, strategy, structure and decision making characteristics. Miller and Friesen empirically observe that "*as we progress through the first four phases of the life cycle, the organization's situation does tend to become more complex. Firms become bigger, and concentration of ownership declines, as does the influence of shareholders and board members. Customers, on the other hand, exert more influence. Heterogeneity and hostility of the environment increase*". A different viewpoint, but with similar implications to the changing context of the firm, is Dodge and Robbins' (1992 p. 33) observation that "*seemingly, external environmental problems are more important early in the lifecycle, with internal problems becoming more critical as the small business* *grows and develops*". Kisfalvi (2002) encourages these longitudinal analyses of firm – owner-manager strategic behaviour, as they increase one's understanding of the important role played by the individual in triggering the entrepreneurial process within the firm.

A closer look at the literature clarifies the life cycle concept, its meaning, as well as its strategic implications. The firm and its progression through a life cycle of evolution have been established in the literature as far back as in seminal works such as Chandler's (1962) staged model of organizational evolution, all the way to Mintzberg's (2007) recent tracking of organizational strategies. Various definitions for what constitutes a firm's life cycle exist, with Hanks et al. (1993 p. 7) reviewing the literature to come up with a definition of a life cycle stage as constituting "*a unique configuration of variables related to organization context and structure*". The authors note that the previous literature has converged towards five distinct life cycle stages of start-up, expansion, maturity, diversification and decline. Observing that a common absence of careful empirical analysis has resulted in a multitude of conceptually-based life cycle models, the authors proceed to provide an excellent cross-sectional, empirical study on the life cycle stages of SME's. Mapping out complexity (X-axis) against dynamism (Y-axis), four distinct life cycle stages are observed (similar to birth-growth-maturity-decline), each with a particular configuration of variables such as turnover, employee count, growth rate, structures and specialization. Hanks et al. (1993) strongly advocate future longitudinal studies to complement and build upon their cross-sectional approach which can only go as far as infer development paths from a sequence of static pictures.

An important argument put forward by many authors is, once again, the concept of coalignment, or strategic fit, albeit now in a more dynamic manner. This holds particular significance in the case of the small firm and its more dynamic behaviour. For example, in an observation of management development in small firms, Kroeger (1974 p. 42) observes that "*each stage of development in the life of a firm has unique characteristics that combine traits of the manager, the product, and the customers*". Miller and Friesen (1984 p. 1176) also observe this configurational nature of each life cycle stage, stating that "*there appears to be a cohesiveness or complementarity among the situation, strategy, structure and decision-making style variables for each phase*". In fact, the solution to mapping out the dynamic coalignment taking place is precisely through this use of the life cycle concept: "*The best way to interpret relationships between personal values and firm performance across studies is to systematically take organizational life cycle into* *account*" (Ling, Zhao and Baron 2007 p. 689). The authors argue that the better the alignment, the more success the venture will ultimately achieve.

The issue of coalignment is especially important for the small firm when considering the fundamental impact that the owner-manager will have on the operations and strategic direction of the firm (d'Amboise and Muldowney 1988). Various texts have attempted to compare the state of the firm with the values and behaviours of the owner-manager of the firm. For example, Smith, Mitchell and Summer (1985 p. 818) observe the ease with which managers would change their priorities as their organizations reached different life cycle stages. The authors posit that "*managers probably need to change their priorities as their firms move through different stages. If they cannot, they may inhibit the future development of their organizations*". This observation is mirrored by Ling, Zhao and Baron (2007 p. 689), in that "*different managerial values may matter at different times*…*although some values may matter more when a firm is small and new, others may have greater impact when a business is larger and more mature*". This is not a static picture of alignment, however, and Dodge and Robbins (1992) point out that the actions and decisions taken by management with respect to current problems will propel the transition to the next life cycle stage. The authors empirically observe that the particular challenges faced by small firm management change and evolve over the life cycle. For example, cost-related challenges were more prominent in the mid stages of the life cycle whilst organizational design and production challenges were more prominent in later maturity – refocus stages. Also, the reactive element of management is not to be overlooked, as the stimuli the firm receives will impact upon the owner-manager's philosophy to induce particular forms of behaviour (Rokeach and Ball-Rokeach 1989). Once again, this is the dynamic concept of coalignment, as the small firm owner-manager acts and reacts according to core values, to the changing business context, and to the consequences of previous actions.

Kroeger (1974) goes on to conclude that if the manager does not have the required skills and capabilities for a particular stage, the firm will inevitably fail. This logic is mirrored by Masurel and van Montfort (2006) and Dodge and Robbins (1992 p. 33) who argue that "*the owner-manager has to contend with different problems in the various stages of the organization's life cycle signaling different operational contexts*". Similarly, Kerr (1982) refers to the assignment of an entrepreneur in the introductory stage, a sophisticated marketing manager in the growth stage, a critical administrator in the maturity stage and an opportunistic milker in the decline stage. Herr observes, however, that this is far more easily said than done, with difficulties found both in measuring the life cycle stages and in identifying the necessary managerial traits. As in many conceptual texts on life cycle progression, Kroeger (1974 p. 42) assumes a sequential path; "*if the role is filled and the function performed satisfactorily, the life cycle will continue sequentially to the next stage*". However, in their exhaustive longitudinal study of a sample of business's evolvement over decades, Miller and Friesen (1984) disagree outright. They observe a wide variety of transitional paths open to organizations, in fact, 125 transitions were observed in their particular study. The authors posit that whilst the life cycle pattern is generally obeyed, it is no more than a very rough central tendency as opposed to a pre-established, sequential path. The authors conclude that "*while the stages of the life cycle are internally coherent and very different from one another they are by no means connected to each other in any deterministic sequence*" (1984 p. 1177). In conclusion, Miller and Friesen see coalignment within the different established life cycle states to be of importance, and not a rigid transition in a pre-established sequential fashion.

In conclusion, one can look towards Hambrick's (1984) description of strategy as a trajectory, or pathway, between the firms' different life cycle stages. In each stage a different configuration of variables, both internal and external to the firm, will demand coalignment between these variables. This coalignment has strategic implications, as it will impact upon the present performance of the firm as well as its future behaviour. This is the concept of strategic fit, but at a dynamic level. It relates to the form of fit defined by Venkatraman (1989 p. 432) as "*fit as gestalts… feasible sets of internally consistent and equally effective configurations*". The traditional description of firm life cycle, as a prescribed sequence of birth, growth, maturity and decline stages, has somewhat less relevance to the small firm and is more applicable to the large firm and the formal strategy – structure debate (e.g. Burgelman 1983a, 1983b). Miller and Friesen's (1984) conceptualization of the business life cycle appears best suited for the small firm. Each stage is unique, with unique challenges, influencing variables, behaviours and configurations. Firms may take on various paths between the different stages. Finally, firms have to successfully achieve a strategic coalignment within each stage to perform effectively.

2.8 Performance and the Small Firm

Two main issues stand out when it comes to interpreting performance results for the small firm. These are the issue of subjective versus objective measures of performance, and the concept of unidimensional versus multi-dimensional performance measurement. On the first issue, subjective measures of performance are usually obtained via questionnaires or interviews with the owner-manager of the firm, as it is expected that the perception of the owner-manager is substantially in line with the reality of the firm (Ling, Zhao and Baron 2007). Subjective dimensions may be as intangible as the firm's established reputation, although financial data can also be obtained subjectively (Yusuf and Saffu 2005). Problems to obtain subjective data from small business owner-managers are not uncommon though, as "*small business owners are busy people, often under considerable pressure. Understandably, they may not be too sympathetic to requests from researchers for some of their time*" (Curran and Blackburn 2001 p. 60). Objective measures, such as turnover, profits, return on investment, would mainly be obtained from company records, published financial statements or public archives. The debate on which method to adopt for the small firm is ongoing, with arguments in favour of subjective measures (Covin and Slevin 1989), of objective measures (Ling, Zhao and Baron 2007), or of applying a combination of both (Aragón-Sánchez and Sánchez-Marín 2005; Rue and Ibrahim 1998; Tosi and Gomez-Mejia 1994). It has indeed been observed that "*small firms are notorious for their inability and unwillingness to provide desired information on their performance*" (Covin and Slevin 1989 p. 80).

Coupled with this first issue is the second; that of the dimensionality of the measurement of performance. Studies going for objective measures are predominantly unidimensional, looking towards growth in returns and investments (e.g. Ebben and Johnson 2005). This may lead to a possible misconception that if the firm is not tangibly doing well, that is, if there is no evident growth in sales, assets, employee count and so on, then the firm is indeed failing. A counter-argument to this logic is that factors such as the more tacit reputation, public image, employee satisfaction, and goodwill are also important performance-related variables for the small firm, where satisficing may be more important than maximizing financial gains (Runyan, Droge and Swinney 2008). Even survival may be an indicator of good performance in a turbulent environment. "*Thus, a small, privately owned firm may regard its continued existence as a satisfactory indicator of high performance, even though it cannot claim to have a strong return on assets or growth in* *market share. It also may make a conscious decision not to grow beyond a certain size, in order to maintain control of the business. Thus, factors such as overall satisfaction and nonfinancial goals of the owners may need to be weighted more heavily in evaluating performance, especially among privately held firms*" (Lumpkin and Dess 1996 p. 154). Similarly, as observed by Curran and Blackburn (2001), studies of real-life small business owners show that profit maximization is rarely the prime motivator for how they manage their businesses.

One approach towards quantifying small firm performance is to apply multi-dimensional measures, and to merge subjective and objective measures. Patton (2002) advocates the advantages of "methods" triangulation, where data collected through qualitative methods is integrated with data collected through quantitative methods to provide added rigour and validity. In a bid to obtain a rich set of performance-related data on a sample of small firms, Wiklund and Shepherd (2003) apply ten different measures of performance; sales growth, revenue growth, growth in the number of employees, net profit, product/service innovation, process innovation, adoption of new technology, product/service quality, product/service variety, and customer satisfaction. The same authors (Wiklund and Shepherd 2005) follow this with an integrated measure of financial indicators (gross margin, cash flow and profitability) and growth measures (sales growth and employee increases) on a sample of small firms, obtaining a coefficient alpha value of 0.70 for the combined scale. The common use of cross-sectional research, however, often results in the issue of causality (Covin and Slevin 1991), in that performance may be a result of particular contexts and behaviours, but many also act as a condition or precursor for these behaviours. There is also the issue of time lag, in that a measurement of today's performance will relate to actions and contexts that have taken place in the past. Measuring present-day strategy, structure and performance in a cross-sectional manner may provide somewhat of a misleading picture. The usual expectation is that small entrepreneurial firms perform best in hostile environments, and by adopting organic and competitive stances. Conversely, mechanistic, conservative firms perform better in benign, static environments (Covin and Slevin 1989). Empirical results to this effect, however, have been inconsistent, as has been discussed in the previous section on EO.

A final issue on small business performance remains; that of its dynamic nature. Runyan, Droge and Swinney (2008) touch upon the concept of dynamic expectations towards small business performance, with a firm changing its expectations as its situation evolves, ownership changes, and its management is reconfigured. Covin and Slevin (1989 p. 84) provide a contribution regarding the coalignment of firm characteristics with performance; "*performance is, presumably, a function not only of a firm's organization structure and strategic posture, but also of the fit between these variables and the firm's business practices and competitive tactics*". Thus, if performance is dynamic, and results from a successful coalignment of organizational and environmental factors, the issue of how to monitor changing small business performance still remains. As a solution, Hambrick (1984) proposes that high performance and low performance firms should be grouped and studied separately (this is essentially the "typological approach", and is dealt with in more detail in Chapter 3). In other words, clustering techniques would be applied separately on batches of differently performing firms. This will allow the clusters formed from higher performing firms to suggest ideals, best practice strategic orientations. High performance patterns would suggest success patterns whilst low performance patterns would suggest pitfalls. Building upon Hambrick's advice, an integration can be made from the literatures on the firm's life cycle, owner-manager – firm coalignment, and the dynamics of small business performance. The life cycle literature has pointed towards states, or stages, of small firm development and evolvement. Each stage is a unique coalignment of internal and external variables, where the coalignment of the owner-manager characteristics with that of the small firm is of utmost importance. Hambrick's clustering of performance values for different states/stages of small firm evolvement may well indicate different performance values (or even criteria) for different life cycle stages. This is no more than a logical train of thought; different objectives will be important to the firm (and to its owner-manager) at different stages of its evolvement. A strong similarity can be made here to the marketing theory on the consumer life cycle (Kotler and Armstrong 2008). As a consuming family travels through its life cycle, different things matter; like house-building at the growth stage or health/leisure at the retirement stage. One problem that becomes immediately evident here is the paucity of empirical research on the performance of small firms at different life cycle stages. Once again the SBO – EO polarity approach seems to win over in the literature, such that SBO firms are lifestyle firms interested in satisficing, and EO firms are dynamic firms focused on aggressive growth. It is argued that this is somewhat of a simplification of the various life cycle states a small firm can adopt, and provides little understanding of the motivations owner-managers will have to move from one state to another. Issues such as these shall be the focus of Chapters 5 to 8 of this thesis.

2.9 Business Strategy and Strategic Group Theory

The literature review has, so far, discussed the concept of small business strategy as a transition between strategic stages in the concept of organizational life cycle, and with the argument of coalignment at each and every stage of business transition. The argument being built is that Configurational theory is not only ideal for looking at coalignment at a particular stage, but also for grouping firms with like characteristics into similar stages, and observing commonalities within the groupings, and their implications. This configurational approach follows on the literature on strategic group theory, a source of literature with strong economic foundations. Strategic group theory is commonly used to explain the behaviours of like groupings of firms within a particular industry, as well as more generic strategies across industries (where the patterns of behaviour are so consistent that they span industries).

In all, four schools provide the foundations for strategic group theory. These are: Industrial Organization economics and its later developments; Organizational Systematics; Strategic Choice–Environmental Determinism; and Resource-based Theory. Appendix 1 expands upon these schools, establishing the key features, as well as the main contributors. The following Figure 2.3 integrates the four theoretical thrusts into one set of common propositions that collectively explain the rationale of strategic groups. In conclusion, organizations have different patterns of behaviour that allow them to respond differently to the environment. Configurations can be found for grouping these patterns through common underlying factors, explaining how firms compete within groups, as well as between groups.

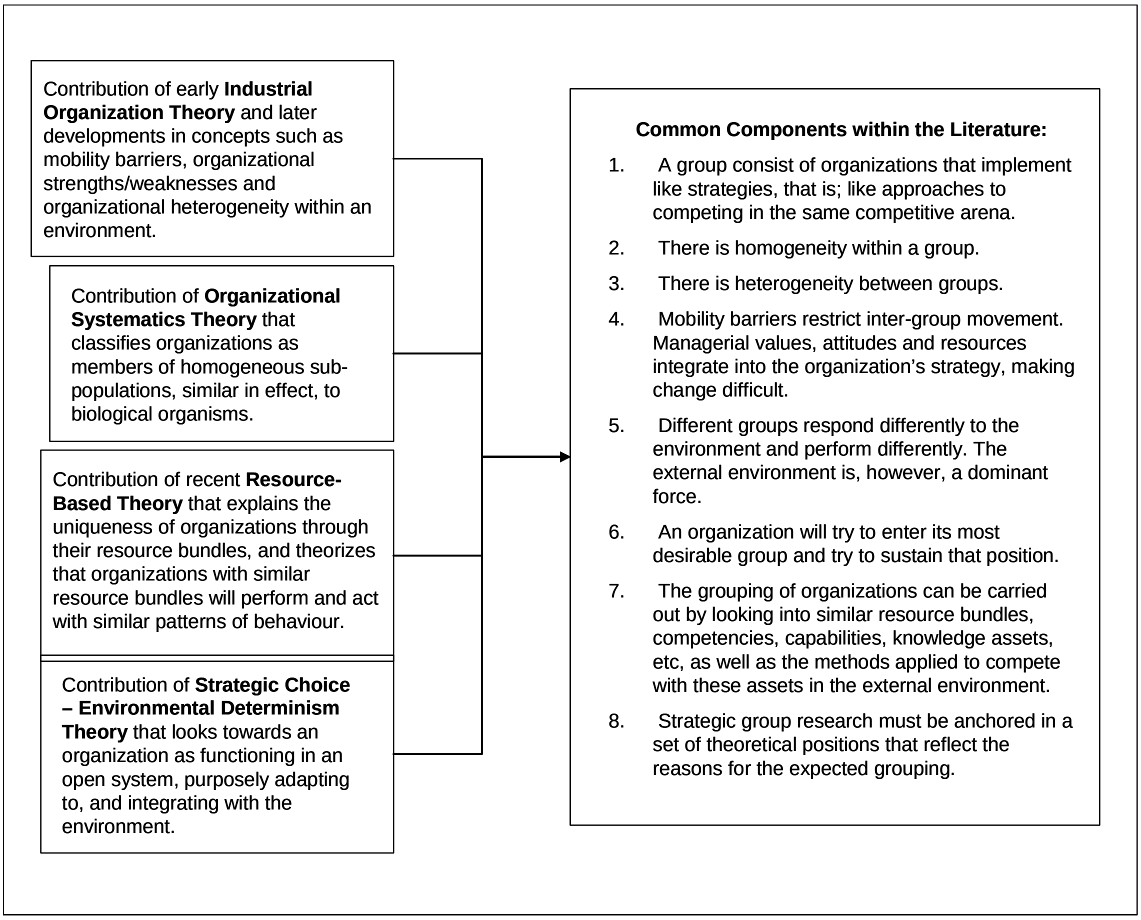


Figure 2.3: Integration of the Literature on Strategic Group Theory

2.10 Conclusion to the Chapter

The chapter has followed along two general literature streams, shown to the centre and to the left of the literature map depicted in Figure 2.1. The main thrust, following along the central stream shown in the literature map, has been to establish how small business strategy can be understood. The competing theories on organizational strategy have been discussed with a particular focus on the literature that describes a behavioural approach, observing small business strategy as a pattern in a stream of actions. The remainder of the main literature stream has focused on establishing how this can be done. The literature on the firm as the main unit of focus has been contrasted to the literature on the owner-manager as the main unit of focus. This is followed by the literature on firm – owner-manager strategic coalignment, supported by the limited literature on organization life cycle. The mains stream is closed off with an overview of the literature on small business performance. This approach is deemed necessary, as the strategy literature on large, bureaucratic firms will do little to explain the dynamic nature of the small firm. The present research findings shall demonstrate the importance of this strategic coalignment, at different stages of the small firm's life cycle. In fact, as posited by Farjoun, strategy can be defined as the *"coordination of the firm's major goals and actions, in time and space, that continuously co-align the firm with its environment*" (2002 p. 570).

The second literature stream within this chapter both supports the earlier discussions and paves the way for the following chapter. This second stream is shown to the left of the literature map (Figure 2.1), and details the literature on strategic group theory. The logic is simple; if patterns of dynamic coalignment are to be sought, then a typological approach will have to be adopted to study commonalities in patterns. For a typological approach to be adopted, the theories underlying strategy typologies must at least be understood. Four theories collectively supporting strategic group theory are visited (detailed in Appendix 1), and a common set of propositions put forward (Figure 2.3 on the previous page). These outline the implications that firms face when competing strategically within a group, or towards other strategic groups. The forthcoming chapter shall take on a more practical approach to this strategic group theory, comparing and contrasting the more common typology techniques adopted. The final aim is to understand how to best map out the dynamic, strategic coalignment of small firms. The following chapter will conclude in favour of a trajectory-based approach, after providing various examples for the different alternatives at hand.

Chapter 3: The Literature on Strategy Typologies

3.1 The Logic of a Typological Approach towards Understanding Business Strategy

The aim of this chapter is to review the practical literature on typological approaches commonly used to understanding strategic behaviour. The criteria of importance have already been discussed in the previous chapter, such as the need to study small business strategy as a dynamic coalignment of characteristics pertinent to the small firm, and in its various life cycle stages. What has not been established yet is, on a more practical front, exactly how this can be done. This is the topic of the present chapter.

Hair et al. (1998 p. 472) define a typology as a conceptual classification of objects based on a number of defined characteristics. Typologies provide the theoretical foundation for the creation of a taxonomy, which is a grouping of the actual observations. The focus of the research in question is in fact both; developing a theoretical typology and an empirical taxonomy, although the application of grounded theory actually merges the two developments together as comparative enquiry leads to a simultaneous development of conceptual categories and a relation of the cases to the categories. In comparison, in quantitative techniques the stage is first set by the establishing of a typological framework based on prior learning, then a taxonomy is created by allocating cases to the framework usually by applying cluster analysis techniques.

The literature on the strategic behaviour of organizations is often restricted to two particular perspectives. The first perspective is the Universalist school that looks at strategy as a fixed set of laws with pre-determined outcomes. The more common literature on strategy, including the bulk of strategic management literature and industrial organization economic literature, is based upon this school. Building market share, acting entrepreneurially, creating barriers of entry, vertically integrating, are all seen to be strategic actions that will inevitably lead to some level of success. This school is, however, not so relevant to the small firm that bases its actions more on intuition, experience and instinct (McCarthy 2003). In fact the owner or top executive of a small firm will have little time, and limited resources, for this formal and pre-meditated strategic behaviour. The second common perspective is the Contingency school (also called *Situational* theory).

The underlying theory is that small firms will adopt any, or a combination of, a number of dimensions of strategic behaviour according to the situation, the industry and the management philosophy of the owner-manager. Strategic behaviour will be conditioned by a more limited resource base, greater flexibility, faster response times, enhanced networking, and a number of other dimensions pertinent to small firms. Contingency theory is based on the underlying premise that "*there is no one best way to organize, and that any one way of organizing is not equally effective under all conditions*" (Ginsberg and Venkatraman 1985 p. 421). The approach is heavily criticized by Hambrick (2003) who sees it to be of little use to managers who want to learn from the successes and failures of other firms. It has an added problem that the dimensions of interest can be configured into seemingly endless combinations (Hambrick 1984), making prediction and generalizability difficult. In fact, both the above schools have been criticized as being inadequate in explaining true strategic behaviour. Mintzberg (1994) posits that few organizational strategies are purely deliberate (the Universalist school) and few are purely emergent (the Contingency school), as one suggests no learning, and the other no control.

The present research looks at strategic behaviour from a third perspective; the Configurational school. This school has been described as one that is very much alive today and that best describes the true strategic behaviour of an organization (Hambrick 2003). Configurational theory argues that "*there are a handful of basic patterns that businesses can select from in order to achieve their aims*" (Hambrick 2003 p. 116). Typologies are created to map out these basic patterns. It has been empirically proven (Ketchen et al. 1997) that strategic typologies successfully explain a significant portion of organizational performance. In fact, organizational configurations represent an extension of contingency approaches into multivariate combinations that express complex interrelationships, providing for more predictive power than bivariate contingency relationships (Dess, Lumpkin and Covin 1997). For example, Thomas and Ramaswamy (1996) demonstrate that organizational alignment into a typology, coded as a variable and regressed against performance, explains far more of the variance in performance than a host of other contingency factors. This is in line with common reasoning on the significance of typological studies as a means of grouping and studying patterns of strategic behaviour. As stated by Meyer, Tsui and Hinings (1993 p. 1181); *"Organizational structures and management systems are best understood in terms of overall patterns rather than in terms of analyses or narrowly drawn sets of organizational properties".* These patterns are empirically observed through the creation of taxonomies based upon key strategy variables. As posited by Hambrick (1984 p. 40); "*taxonomists search for* *commonly recurring patterns. This would seem an important endeavor in any field, but especially in a field such as strategy with its complex and unordered terrain*".

The Configurational school is based upon the concepts of common patterns, of strategic fit, and of equifinality. Common patterns, conceptualized into typologies or empirically into taxonomies, simplify a vastly complicated business landscape where as many as 500 variables describe the business organization (Sells 1964). Strategic fit occurs when an organization has a number of configurational parameters that are in line with each other and the environment. For example, if the management philosophy of an organization's owner-manager is in tune with the structural setup of the organization, the technological base, and the strategic stance adopted, then the organization should perform well. Equifinality describes how organizations fit into different classifications that can all lead to successful levels of performance. In other words there may be various configurations of successful fit, and other configurations of unsuccessful fit. Equifinality is defined by Venkatraman (1989) as a powerful concept where sets of internally consistent and equally effective configurations will be found. Merz and Sauber (1995) proceed to demonstrate empirically that equifinality is also prevalent in small firms. The Configurational school lends itself well to describing the strategic behaviour of small firms, and empirical research in this field is growing (see Table A2.1).

A major issue, however, in typological research on business strategy regards weaknesses in the methodological approach that is often adopted. Inconsistencies and contradictions abound in the existing empirical research. A key example is the inadequacy of the variables that are selected to identify the strategic types within a given environment. If one is to go by configuration theory that reasons that organizations whose configurations are more aligned to their environment will perform better (Ketchen et al. 1997; Miles and Snow 1978), then a serious challenge lies in identifying these configurational variables. For example, whilst it has been established that a broad, multi-dimensional set of independent variables will better capture the strategic behaviour construct (Conant, Mokwa and Varadarajan 1990; Ketchen et al. 1997), many studies apply a limited range of single-dimension variables. The approach towards inductive versus deductive selection of variables is also an issue of contention. Over two-thirds of strategic typology studies use an inductive approach where an array of variables is defined and a theoretical explanation is extracted via clustering techniques (Ketchen and Shook 1996). This results in taxonomies being 'forcefully' created as a result of the influence of pre-selected variables (McKelvey 1975). Also, since cluster analysis will inevitably create clusters regardless of the true existence of any structure in the data (Hair et al. 1998 p. 474) then this approach often leads to inconsistent and unsubstantiated findings. Use of single-item scales is also common, although multi-item measures provide greater discriminatory power and lower measurement error (Venkatraman and Grant 1986). There is also the issue of whether the variables adopted have been proven within the existing literature to capture the true meaning of the construct within the environment under scrutiny. Even in more qualitative or in longitudinal studies, typological exercises are often limited by the difficulty in tracking how the variables of interest interact and covary over time. Tying to this concept is a common lack of inclusion of both strategy process and strategy content variables within the ensuing typologies (Boyne and Walker 2004; Ketchen, Thomas and McDaniel 1996). Many other methodological issues cloud this area of research, such as the lack of a coherent strategy towards testing for reliability and validity of the measures that are ultimately applied.

Whilst Miles and Snow's (1978) strategic typology and Porter's (1980) generic strategies are possibly the most popular classifications, many others exist: Fouraker and Stopford (1968) define Type I, Type II and Type III organizational structures; Miller and Friesen (1978) define 10 archetypes of strategy formulation; Miller and Roth (1994) devise a taxonomy of manufacturing strategies categorized into Caretakers, Marketeers and Innovators; Dess and Beard (1984) list three environmental types of firms named Munificence, Complexity and Dynamism; Grover and Saeed (2004) define a cross-sectional typology of firms as Mature, Risky, Moderate, and Novice; Miller (1983) establishes a typology of Simple, Planning and Organic firms. Mintzberg (1973) groups firms into an Adaptive Mode, a Planning Mode and an Entrepreneurial Mode and subsequently (2007) defines the Entrepreneurial, Machine, Adhocracy and Professional firm; and so on. Typologies are constantly used in undergraduate studies to give students a better all-round perspective of the topic under study. In marketing, firms are classified as having production, product, selling, relationship marketing or societal marketing orientations. In business studies, firm behaviour is related to the scientific school, the administrative school, or to various neo-classical schools. In economics, firms are classified by placing them into one of four typical industry settings; perfect competition, monopolistic competition, oligopolistic competition or monopoly settings. And so on. Appendix 2 looks at some of the more commonly used strategy typologies, mapping out the developments in this area of research application.

3.2 Developments in Typological Applications and the Way Ahead

Typologies can be formed to study business strategy at two levels. At the industry level strategic groups will consist of clusters of businesses employing similar strategies to compete for limited industry resources. At a more generic level strategic typologies will be formed that allow for the study of firms with similar strategic behaviours and that are generalizable across industries. Parnell and Hershey (2005 p. 19) sees the second to be a development of the first, a development that came about when "*researchers were beginning to categorize similarities within the strategic groups across studies*" and across industries. It is this concept of generic strategy typologies that is of interest to the small business strategy researcher as it allows for the much required description, prediction and generalizability.

Typologies are ideal to explain the richness of strategic behaviour, by grouping firms into clusters of similar behaviour and defining the unique characteristics of each cluster. As argued by McKelvey in his 'guidelines for the empirical classification of organizations'; "*If a usable classification existed there would be no need for contingency theory*" (1975 p. 523). Examples of widely utilized typologies have been outlined in Appendix 2, both those focusing on a cross-sectional picture of strategy (stances) and those directed towards a processual viewpoint of strategy (actions). This difference is no more than the 'process versus content' debate that has been with strategy researchers for a long time. However, as argued by Strauss and Corbin (1998 p. 127): "*Process and structure are inextricably linked, and unless one understands the nature of their relationship (both to each other and to the phenomenon in question), it is difficult to truly grasp what is going on*". The combination and integration typologies go some way by looking at the integration of stances with actions, albeit in a somewhat forced manner. Appendix 2 has put forward an argument in favour of using trajectory, or pathway-based typologies as a more complete way of integrating static pictures of strategic states with dynamic information of how firms move between states. Again, the literature is sparse here and is heavily biased towards deductive, cross-sectional techniques. This appears to be limiting the development of knowledge in this area, and thus, in truly understanding how small firms behave strategically. The following chapters will provide, and apply, a different methodology that is well-suited for mapping out patterns (Charmaz 2006), one that is deemed to be a hybrid between longitudinal/case studies and survey-based quantitative studies.

Chapter 4: Research Methodology. A Grounded Theory Method of Enquiry

4.1 Summary to the Methodology

The research method that has been adopted is that of grounded theory research. Grounded theory is not a qualitative technique, but is a general method that can be used on any kind or mix of data, and is particularly useful with qualitative data (Glaser 1998 p. 40). A number of requirements set the scene for the choice of method to be made. First of all the main objective, as stated in the introduction, was to observe and build a typology of the most common patterns of strategic behaviour, for small firms in a small island state. Relating the various patterns of behaviour to performance implications was also an important parameter. A fundamental requisite was to induce a model of strategic behaviour from data pertaining to the substantive area of enquiry (small firm strategic behaviour), and not deduce and test a conceptual framework established from prior literature. It was felt that this would provide a unique understanding of the phenomenon in question, that is, a theoretical model grounded in the data and providing an understanding not available in traditional models. The main, salient characteristics of the research settings were as follows: Small business owner-managers would often be ready to make themselves available for interviewing, provided the interviews were not too long (Curran and Blackwell 2001), were non-intrusive, and did not demand confidential details on products or services that the firms had some form of competitive advantage on. Secondary quantitative data were also available in the form of the firms' financial statements and records, and had to be properly integrated into the study. The small geographical area of the Island made travelling to participants, for all the different industry types, a straightforward affair. Most important of all, the method to be chosen had to allow for an understanding of the critical competitive actions taken by owner-managers, the context to these actions, and the consequences of the actions. This had to include a time component, that is, how the actions, context and conditions changed or adapted over time, and as the firms evolved.

The intended typological approach excluded the use of longitudinal or case studies (that consist of one or a select few cases) as these would not provide sample sizes adequate enough for typological groupings. The need to observe the changing business behaviours over time, as well as the difficulty to measure the many nuances of small business behaviours, made cross-sectional quantitative approaches inadequate. Other qualitative methods of enquiry could have been adopted, but were not considered to be superior to the grounded theory approach. For example, one possible alternative could have been a phenomenological analysis, often used in organizational research to develop an understanding of complex issues that may not be immediately implicit in surface responses. This takes on the form of a direct description of the participants' experiences, without taking into account their psychological origin (Goulding 2006 p. 22). The basic assumption is that a person's life is a socially constructed totality, in which experiences interrelate coherently and meaningfully. The method, however, does not allow for due appreciation of the often-complex psychological and behavioural characteristics that condition the behaviours of small firm owner-managers. Also, it was felt that the use of purposeful sampling that the methodology demands (focusing on the participant who has 'lived' the phenomenon) would not be suitable for the expected situation where owner-managers may individually only see part of a complex, multidimensional picture. In fact, the forthcoming Figure 4.3 shall demonstrate that three different sampling techniques were adopted in the resulting sampling strategy. Another alternative considered was that of ethnographic enquiry, often used to study culture, power, conflict and management styles within organizations. The outcome of an ethnographic study is a dense, fluid and readable narrative, built through the prolonged direct contact with the members of the organization under study. It is this use of participant observation that makes the approach inadequate for small business research, as strong resistance would be put up by small firm owner-managers to this level of intrusion. Grounded theory essentially has three advantages not found in other methods of enquiry: Its emphasis is on theory development and building, not just description; It is strong in the concept of verification through the tireless process of comparative analysis, coding, and category saturation; Finally, it aims at building a parsimonious model within the substantive area of enquiry, and not solely a dense description of a phenomenon. This will be shown to be a vital requirement, if applicability of the research findings is to be achieved.

Different schools exist within grounded theory, boasting different knowledge claims, different strategies of enquiries, and alternative methodological implementations (Bryant 2002; Morse et al. 2008). The knowledge claim relevant to this research is one of postpositivism, or as Curran and Blackburn (2001 p. 41) would call it, a non-positivist approach. This claim brings with it a number of assertions: That completely value-free inquiry is impossible but that objectivity can be maximized through rigour, impartiality and consistency (Patton 2002); That the researcher's unfolding interests shape the content of the research but not the method (Denzin and Lincoln 2008); That the resulting theory is an interpretation of a complex world, a rendering of reality as seen through the eyes of the informed researcher (Charmaz 2006). The knowledge claim also accepts that all methods are imperfect, and that by including both quantitative and qualitative data into the method a greater understanding of the phenomenon in question can be achieved (Patton 2002). The strategy of enquiry that has been adopted is thus the systematic application of grounded theory, acquiring (and analysing) data through mainly qualitative (in-depth interviews) but also quantitative techniques (to triangulate for one particular construct; performance). Grounded theory is described as both a method of enquiry and the product of enquiry (Denzin and Lincoln 2008). It is used to generate both conceptual categories and theoretical hypotheses from data obtained through interviews, observations, reports and qualitative analysis. These categories and hypotheses integrate to form a model, framework or theory, aiming at explaining a phenomenon under study. Grounded theory is thus applied to develop theories from research grounded in data (Birks and Mills 2011), rather than deducting testable hypotheses from existing theories.

Strauss and Corbin's (Strauss and Corbin 1998; Corbin and Strauss 2008) approach of building categories and memos through constant comparison of (primarily) interview-based data has been adopted in this research. Furthermore, Strauss and Corbin's coding paradigm of the *Conditional and Consequential Matrix* has been adopted, as this related very well with the data and emerging themes. Charmaz's (2006) philosophy towards a constructivist grounded theory has also seen to be highly relevant to the approach that was ultimately implemented. Arguments shall be placed in this chapter, and in those following, of how a constructivist philosophy has been adopted in the implementation of the research. Mir and Watson (2001) argue the benefits of applying a constructivist approach in strategy research. The research method mainly focused on analyzing data obtained through expert, in-depth interviews with the owner-managers of 67 small businesses. Three different sampling approaches were adopted; convenience, purposeful and ultimately theoretical sampling. Secondary, quantitative data were also included into the grounded theory method, obtained via the audited financial statements of the small businesses in question.

The first part of this methodological chapter shall look at the important epistemological and philosophical developments in the grounded theory method over the years. This is necessary as it shall be argued that the method adopted within the present research project applies different contributions and strengths of the various proponents to the method of enquiry. As argued by Bryant (2002), the researcher is obliged to clarify her philosophical stance and to develop methods that accord with her orientations. Later sections in this chapter shall describe the application of grounded theory, the research context in question, and the operational and conceptual challenges that had to be overcome. The concept of constant comparison; carefully coding and analysing interview after interview, was applied as the basis of the grounded research, serving two purposes not unlike reliability and validity techniques used in quantitative research. The systematic coding of transcribed interviews allowed for the building of categories that were based on the codes, and that reflected the repeated emergence of core concepts in the data. Further research served to validate the categories, as these would constantly emerge as significant, and research was only deemed to be complete when theoretical saturation was evident. Memos were compiled throughout the research to explain the inter-relationships of the various categories, as well as their corresponding themes. A model thus gradually emerged, one that was rigorously grounded in the data. Researcher involvement in the process served to provide a contribution to the richness of the model, as well as the strength of analysis and interpretation into the research process.

4.2 Epistemological and Philosophical Underpinnings

The developments of grounded theory can be traced back to a number of key authors. Understanding the theoretical basis and application of grounded theory demands a clear insight into the varying and sometimes conflicting epistemological viewpoints of these key authors, and how the method of enquiry took on additional form over the years. This is even more important, given that the method ultimately adopted in this research applied strengths and contributions of various authors. Particularly Glaser (1998) and Strauss and Corbin (1998), followed by Corbin and Strauss (2008), Charmaz (2006) and other authors such as Locke (2001), Bryant (2002) and Clarke (2005), led the field in the development and application of grounded theory. The initialization of grounded theory can be traced to the seminal work of Glaser and Strauss, when the two researchers first published their work, *Awareness of Dying* in 1965, followed by their publication of *The Discovery of Grounded Theory* in 1967.

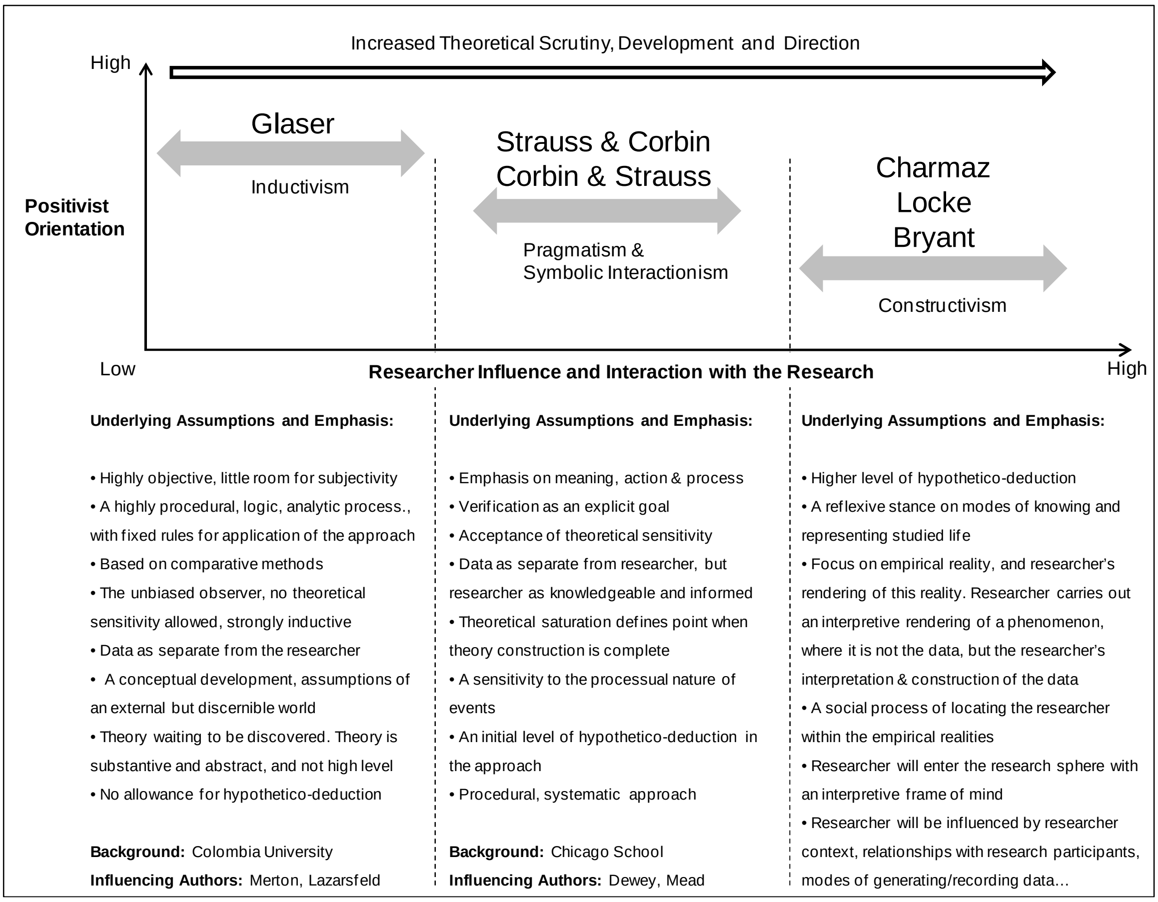


Figure 4.1: Development and Divergence of Grounded Theory

The two researchers worked closely together for a number of years, complementing each others' expertise, having come from largely different theoretical orientations and backgrounds. It was these differing viewpoints that may have caused the creators of grounded theory to separate and take the method of enquiry into somewhat different directions, possibly with some resulting animosity (or 'acrimoniously', as Bryant would put it). Glaser was trained in quantitative research and methodology and theory generation at Columbia University, a source of strong positivistic roots. Key authors influencing Glaser were Merton and Lazarsfeld. Lazarsfeld himself came from a train of thought that there is no qualitative hypothesis or concept that could *not* have a mathematical formula developed for it (Glaser 1998). Glaser credits Lazarsfeld for establishing a number of quantitative analysis techniques that found their way into grounded theory. A key example is Glaser's adoption of Lasarsfeld's work on latent structural patterns, where core indexes would be correlated against all other data in a set, and a consistent pattern of relationships would repeatedly emerge. Glaser credits this consistency analysis to be the foundation of the concept of a core category that emerges through the constant comparison concept with qualitative data. The rigorous integration of the effects of variables (or categories in this case) on other variables would cumulate into an integrated set of hypothesis, amounting to a theory in effect. In Glaser's view, the concepts of constant comparison, emergence of a core category, and an induced set of hypothetical relationships have very strong quantitative, mathematical roots.

Merton taught Glaser logical theory construction through the application of theoretical coding. His emphasis was on social structural theory, and the parsimony, scope and depth of theorising. Glaser capitalized on this powerful coding methodology, while circumnavigating Merton's weakness of often forcing pre-conceived theory onto the data. Glaser's view was that data had to be trusted to divulge the theory lurking within, this still being a strongly positivist approach. Thus, Glaser's own grounding and academic upbringing resulted in an approach towards grounded theory that was based on a number of premises: The researcher and the data are separate, and theoretical sensitivity should be avoided to limit any tainting of the theory emulating from the data by the researcher and his preconceptions; The approach towards gathering and analyzing the data is highly procedural, logical and systematic. It shall be shown that important components of the Glaserian approach, particularly the rigour of coding and of building main categories, have been applied in the research in question.

Strauss started his contribution to grounded theory as co-author with Glaser in the initial research (*Awareness of Dying*, 1965) and the publication that launched the theory (*The Discovery of Grounded Theory*, 1967). Both authors later went their separate ways, and Anselm Strauss ultimately teamed up with student Juliet Corbin (e.g. Strauss and Corbin 1998; Corbin and Strauss 2008) in later years to promote grounded theory from a somewhat different theoretical and operational perspective to that of Glaser. Strauss was from a different academic background to Glaser, receiving his advanced degrees from the University of Chicago, an institution with strong traditional qualitative roots. He was influenced by authors such as Dewey, Mead and Blumer; authors with strong pragmatic and symbolic interactionist epistemological underpinnings. George Mead was a social psychologist and a founder of symbolic interactionism; an interactionist social theory. For Mead, the key to understanding was not simply by understanding human action, but rather social action. His theory (Mead 1972) was of how the mind and being emerge from the social process of communication by signs and visible interaction. Mead's symbolic interactionism was strongly rooted in pragmatism, in that the meaning of an idea or a proposition lies in its observable practical consequences. Mead's orientation can be argued to take on an antipositivistic stance, in that positivism is too restricted to the logic of phenomena that can be contained within an analytic and verifiable framework, and that there is a line between the observer and the research subject. Herbert Blumer was a student of Mead, and coined the term 'Symbolic Interactionism'. Blumer (1969) described the theory as a perspective in which people act towards things based on the meaning those things have for them, these meanings derived from social interaction and modified through interpretation. To perceive food is to perceive eating, to perceive a lodging is to perceive shelter. This logic also applies to the interaction between researcher and subject, and to the meaning derived by the researcher from the interaction. One notes the deviation here from Glaser's positivistic approach.

John Dewey was a founder of the earlier philosophy of pragmatism, deemed by Corbin and Strauss to be the framework to their own methodology (Corbin and Strauss 2008). Dewey (1922) proposed two concepts that are arguably the cornerstones to Strauss and Corbin's subsequent methodology. The first of these relates to the interaction of context, decision making and consequences. In Dewey's logic, "*the test of ideas, of thinking generally, is found in the consequences of the acts to which the ideas lead, that is in the new arrangement of things which are brought into existence*" (Dewey 1929 p. 136). One can see this logic clearly applied years later in Strauss and Corbin's (1998) *Conditional and Consequential Matrix*, a tool that was used in this research. The second concept is Dewey's emphasis on the concept of process, this tying down to the process of decision making. According to Dewey (1929 p. 40), "*we live in a world in process, the future, although continuous with the past is not its bare repetition*". This focus on process becomes paramount in the Strauss and Corbin methodology, and the authors state that "*process and structure are inexplicably linked, and unless one understands the nature of their relationship (both to each other and to the phenomenon in question), it is difficult to truly grasp what is going on*" (Strauss and Corbin 1998 p. 127). Strauss argued that the usual means-end analysis schemes were inadequate in explaining and understanding action and interaction (Strauss 1993). Human conduct was simply too complex to be understood without integrating these content dimensions with that of process. As will be shown, *process* shall feature extensively in the forthcoming chapters that detail the research outcomes.

Following his contributions to the joint research and publications with Glaser, Strauss later on teamed up with Juliet Corbin (Strauss and Corbin 1998; Corbin and Strauss 2008). Corbin was a student and confidant to Strauss, working closely with him in various research projects and publications, and initially subscribing more strongly to the same symbolic interactionist views. Three particular concepts emerged in greater prominence from the Strauss and Corbin partnership. The first concept regards the core category, and its significance within grounded theory. Glaser's earlier positivist approach saw the core category taking on a near mathematical meaning, in line with Lasarsfeld's logic on latent structural patterns. For Glaser, the core category was central because of its frequency of relationships with other categories. Corbin and Strauss (2008 p. 104) do not argue this, but identify the core category more from its explanatory relevance and potential for linking the other categories together. Again one sees here a movement away from positivism and towards pragmatism.

A second development accredited to the Strauss and Corbin methodology is a move towards what the authors term 'hypothetico-deduction'. Whilst Glaser advocated a completely free and unbiased mind, Strauss and Corbin argue theoretical sensitivity and pre-formulating of initial hypothesis or research questions that will form some sort of initial guidance for the researcher. This hypothetico-deduction was not a static affair, but a continuously evolving process within the research, fed through the activities of continued sampling and constant comparison. One notes the researcher now taking on a more central role within the grounded theory method of enquiry. Reichertz (2007) and Kelle (2005) reason that the argument between Glaser and Strauss regarding prior theoretical insight is really an argument between induction and abduction. Reichertz posits that Glaser's induction from the data (with zero theoretical contamination) can lead to sterile or boring studies. Alternatively, abduction, more to the logic of Strauss, is a means of knowledge-extending but in a logical (rule based and scientific) manner.

A third outcome of the Strauss and Corbin approach is that of validation. Strauss and Corbin argue that this validation should take place at various levels and at different stages within the research. For example, validation of initial hypothetical relationships between categories should be carried out by further data collection and further comparisons of data incident to incident. Furthermore, validation of the final emerging theory, as a hypothetical sequence of category relationships, should be carried out once again by comparison, that is, by now comparing the emerging theory to the raw data. In this way the researcher will be testing the emerging theory in a form of high-level comparative analysis (Strauss and Corbin 1998 p. 159). One sees here a different form of induction-deduction to the Glaser logic. The induction here regards the emergence of conceptual categories and hypothetical relationships from the research. The deduction process is seen to be in the interpretive stage, where the researcher is deriving hypotheses from the data. The following chapters shall demonstrate that validation, indeed, did take place continuously, and at the various levels of theory generation and confirmation.

As indicated in Figure 4.1, a further evolvement of grounded theory can be seen in the recent writings of Corbin, and with even more emphasis by authors such as Charmaz, Bryant and Locke. This is not to say modern users of grounded theory have to subscribe to the latest developments, one could just as easily adopt Glaser's positivistic stance or Strauss and Corbin's philosophy of symbolic interactionism. Corbin attributes the later evolvement to the advent of the postmodern era (Corbin and Strauss 2008) whilst Charmaz utilizes a different terminology; that of constructivism (Charmaz 2006). Corbin, in later years (Corbin and Strauss 2008), expresses her initial exasperation with the way modern qualitative paradigms were moving away from the rigidity of qualitative enquiry, and towards the 'deconstruction' and 're-construction' of meaning within the data. Everything was relative, multiple perspectives were allowed, and the modern philosophies were moving further away from objectivity and into subjectivity. Corbin admits to a struggle between wanting to hold onto Strauss's more objective methodological 'vision' and to subscribing to the more modern philosophical assumptions. She finally admits to settling down most comfortably with both; an enhanced level of interpretation together with the Strauss basis of complex storytelling of a theory emerging from the data. Corbin refers to the constructivist writings of Clarke (2005) and Charmaz (2006), and their influence on her philosophical approach towards interpretation and interaction with both the data and the research subjects. A final note on Corbin's later writings is her inclusion of modern software interpretation tools within the methodology (similarly to this research, Corbin utilizes MAXqda).

Kathy Charmaz and other authors such as Karen Locke (2001), Antony Bryant (2002) and Adele Clarke (2005) have served to ingrain the concept of researcher interaction more rigorously within the modern grounded theory method of enquiry. Charmaz takes on a constructivist grounded theory philosophy; that of giving closer attention to empirical realities and to the researcher's rendering of them (Charmaz 2008). Here it is the researcher who brings in past interactions and current interests into the research, interacting with the data and its emerging themes. Data are not passively observed and compiled, but actively acted upon by the researcher and the direct environment influencing that same researcher. Theorising is seen to be an activity, each stage of inquiry being constructed through social processes driven by the researcher, and the research problem and researcher's unfolding interests shape the content of this activity. Charmaz sees constructivism to be a healthy development to the Chicago School's pragmatist foundations (Charmaz 2006). There is still the pragmatist philosophy of meanings emerging through practical actions to resolve problems, of people learning about the world through actions and reactions. Constructivists, however, acknowledge that their interpretation of the studied phenomenon is, in itself, a construction. Reality is made and not observed, and the researcher constructs the realities within which she participates. The researcher will enter the phenomenon with pre-established, albeit fluid, mental constructs, gaining multiple views of the phenomenon, and locating it in its web of connections and constraints.

4.3 Philosophical and Methodological Approach Adopted

The grounded theory method of enquiry that has been adopted can be related more to the later philosophical viewpoints visualized in Figure 4.1; that is those of pragmatism, interpretivism and, more so, of constructivism. Glaser's foundations of coding, of constant comparison, and of theory emerging from the data as a series of hypothetical relationships between categories, have lost none of their importance in the strategy of enquiry that has been adopted. Neither has Strauss and Corbin's additional emphasis on process, on hypothetico-deduction, and on concepts such as theoretical saturation and theory verification. These basic grounded theory properties were indeed applied (as they are really the core components to the method), but it was clear from an early stage that the constructivist approach was dominating the emerging philosophy. A total of 67 small businesses were researched over a three year period (2007-2009), and in-depth interviews, observation and use of secondary data were gathered and transcribed. A sampling strategy (Figure 4.3) was adopted to allow for selection of cases and of materials that were rich in variety and in descriptive power. Constant comparison was applied throughout, supported and strengthened by a coding and categorization strategy. Emerging theory was validated by revisiting the data and testing out the developing propositions or hypotheses. And so on. The main epistemological underpinnings and methodological requisites of Glaser's inductivism and Strauss's symbolic interactionism were, in no way, bypassed by the strategy of enquiry that was adopted. However, as the research unfolded, it became more and more important to appreciate the interpretive and constructivist nature of the emerging research.

A constructivist approach must come with it an understanding of the researcher's theoretical sensitivities, of her biases, of the questions and hypothesis lurking in her mind, of the interactive nature of herself within the research and towards the research subjects, the raw data, and the emerging theory. "*Researchers carry into their research the sensitizing possibilities of their training, reading, and research experience, as well as the implicit theories that might be useful if played against systematically gathered data, in conjunction with theories emerging from analysis of these data*" (Denzin and Lincoln 1994 p. 277). It was no less so in this research process. Possibly the biggest challenge in a constructivist grounded theory approach is in understanding one's strengths and in not allowing these same strengths to become a weakness through bias, whilst allowing for new conceptualizations that allow the researcher to learn and adapt, and to investigate further. The present researcher's own academic and professional background became an important part of the emerging methodology. Being an engineer, coming from over 15 years of work in the engineering sector, allowed for a better view of the processual nature of strategic behaviour, and of how firms built upon value-adding activities and created (or lost) distinctive capabilities. The engineering stance, ignored by most of the literature on small businesses, emerged as an important consequential category (see Figure 5.2). Later work as an academic, lecturing in business and strategy for some seven years, gave a greater exposure to the many schools of thought of strategy, and variants to their interpretation. Examples of these are theories such as *Resource-based Theory* and *Industrial Organization* economics, that offered a better understanding of the actions businesses would take to build resource bundles that were difficult for competitors to imitate or substitute.

Furthermore, exposure to small businesses as a consultant for a number of years resulted in a better perception and understanding of the actions and interactions that small firms would take at various stages of their evolvement. The present research indeed identified different stages of small business development over time, this forming a processual category within the developing framework for small firm strategic behaviour (to be described in the forthcoming chapters). And so on. Again the challenge was always there: Use one's knowledge to see more and to induce more depth into what was being observed, whilst not being oblivious to other important conceptualizations that emerged, and not being conditioned into bias by what was already known. Other viewpoints emphasized by Charmaz were both enlightening and somewhat reassuring. A case in point is her divergence from the concept and rigour of a dominant core category, as no such category was evident in the present research (other to the phenomenon under scrutiny, if one wishes to call that a core category). The argument being put forward here is that the ensuing framework for small business strategy (Figure 5.2) and the resulting trajectory-based typology (Figure 8.1) were stronger and more conceptually dense as a result of the researcher's prior, as well as his emerging knowledge, and not in spite of it. Hopefully this is what constructivist grounded theory aims to achieve. On the use of grounded theory for the analysis of organizational behaviour, Turner (1983) notes that the quality of the final product is more directly dependent upon the quality of the researcher's understanding of the phenomena under observation than is the case with many other approaches to research. Charmaz (2006) argues that theoretical saturation will take more time to achieve for the knowledgeable researcher, but will be all the more rich as a consequence.

4.4 General Description of the Research Method Applied

There are various arguments for and against the different methodological approaches to research business strategy. Venkatraman (1989) provides an excellent review of the many methodological possibilities available, and advocates a multivariate, quantitative approach that allows for the identification of strategy as a set of gestalts that are defined in accordance to common patterns of internally consistent attributes. Dess, Lumpkin and Covin (1997) call for research into more fine grained methodologies, such as case studies, to better understand strategic processes. Harrigan (1983) alternatively proposes a hybrid methodology that is neither coarse grained (purely quantitative) nor fine grained (qualitative, case studies), but somewhere between the two as shown in the following Figure 4.2. This hybrid design allows the researcher to capture much of the depth and complexities available through fine grained methodologies whilst still gaining a strong element of generalizability and prediction available through the more coarse grained methodologies. Grounded theory fits into this category of a hybrid methodology (not to be confused with mixed methods).

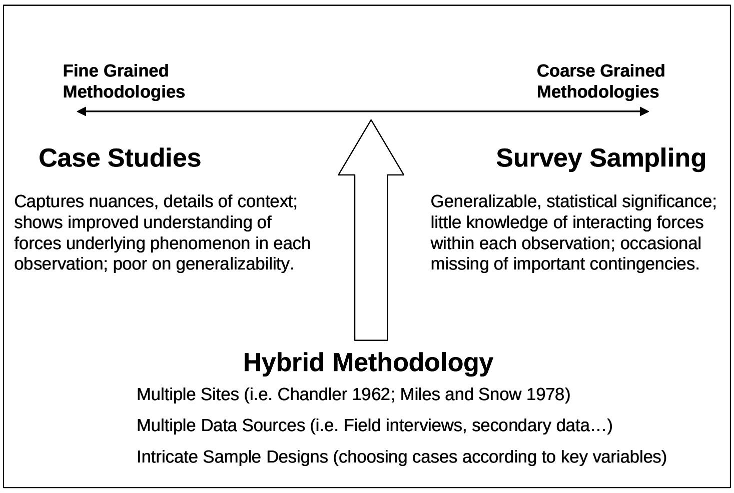


Figure 4.2: The Continuum of Methodologies Available for Research on Business Strategy

The research was focused on small businesses in the Island of Malta, an E.U. member state with a population of just under a half million inhabitants. As shown in the following Figure 4.3, a total of 67 businesses with less than 50 full-time employees (from 0 to 49) were researched over a three year period. This would include both micro enterprises (0 to 9 employees) and small enterprises (10 to 49 employees) if the E.U. and U.K. Department of Trade and Industry (DTI) classifications are applied. The initial aim was to focus solely on limited liability companies to allow for a form of cut-off point regarding formality, availability of financial records, and such. This is a common decision that is made when researching SME's (McMahon 2001), and, as Freedman and Godwin (1994 p. 234) would argue; "*the limited liability company is of more interest to the small business research community than are unincorporated firms... limited liability companies and entrepreneurship have become equated, or at least associated*".

In the final picture though, 64 of the firms are small limited liabilities, 2 firms are small in size but are legal partnerships, and 1 firm had made the transition from limited liability to sole trader within the research period. This mix allowed for the main focus to remain on small limited liabilities whilst allowing for an element of comparison to the strategic behaviours of alternative business types and sizes. Three generic industries within the state of Malta were studied; that of manufacturing (constituting 10% of the 39,000 or so small businesses in Malta), retail (38%), and general services (52%). Malta is classified as a country that is making a gradual transition from an investment-driven economy to an innovation-driven economy; ranking 52nd out of 133 countries measured in the year 2009-

10 Global Competitiveness Index (World Economic Forum). In 2010 the European Innovation Scoreboard confirmed that Malta was a 'moderate innovator', with an above-average rate of improvement in innovativeness (6% compared to an average 2%), but still below the EU average (placing 20th of the 27 EU States). The country's economic strengths were identified as being in the areas of the availability of finance with which to carry out innovations, and the economic rewards of innovation in terms of employment, export and sales. A main driver in the improvement in Malta's innovation performance has been from intellectual property rights generated as a throughput in the innovation process. Innovation weaknesses include a lack of highly skilled, educated workers, entrepreneurial efforts and collaboration between firms, and the actual take up of innovation among companies in Malta. Small firms in Malta provide over 38% of the economy's value added, and 65% of private sector employment in Malta.

An intrinsic knowledge of the culture and language of the Island, as well as the wide diversity of business types available within a limited geographic area, made the Island a choice selection for the research. Malta, being a small island state with a population of just under half a million, is seen to be highly attractive for the study of small business strategy for two additional reasons. Firstly, the ratio of business types, sizes and configurations is highly similar to that of larger countries such as the U.S., U.K. and Australia. The only difference is that this rich variety is accessible within a geographic area of solely 316 square kilometres. The second reason is that the confinements in size and market structure serve to amplify the actions, conditions and consequences that portray small firm strategic behaviour. In other words the research uncovers more vivid patterns of strategic behaviour that are more easily discernible, whilst still being generalizable to larger competitive settings. The major setback to the choice of research setting, as discussed in Chapter 8, is that the ensuing typology may be specific to the behaviour of small firms operating in a constrained geographical region.

Data were collected through three complementary methods, with interviewing being by far the predominant method. In line with the constructionist grounded theory philosophy, interviewing is an ideal data acquisition method as it is a flexible, emergent technique. Ideas and issues emerge during the interview, and the researcher can immediately pursue these leads (Charmaz 2006). A knowledgeable researcher can extract better quality data and assist in focusing the interviewee on the phenomenon under scrutiny (Curran and Blackburn 2001). Goulding's (2006 p. 59) interviewing approach was largely adopted, relating to accessing and adapting to the setting, building a rapport of trust, and structuring the interview. Rubin and Rubin's (2005) logic on how to prepare, conduct and converse within the interview was also largely utilized. Flick's (2006) model for interviewing was adopted, whereby the interviews, all face-to-face, started off in an unstructured manner (largely open ended), and were increased in structure as the interview progressed. The initial lack of structure would allow the interviewee to truly express her thoughts, whilst the increased structure would be used to expand upon a certain concept mentioned, to open up dialogue on further themes, or simply to control for repetition. Curran and Blackburn's (2001 p. 73) concept of merging unstructured questioning with structured support was also utilized to avoid the substantial difficulties of conducting purely unstructured interviews. A prompt sheet (Appendix 4) was always at hand to ensure that the interviews would proceed in a smooth manner, without any stalling or excessively prolonged silences.

In initial interviews more open ended questions were utilized than ones carried out at later stages of the research, at which point a shift in focus would have taken place from the identification of conceptual categories to their subsequent saturation. An issue arose practically immediately in the start of the research regarding to what extent should the pre-prepared prompts and research questions be utilized. This issue was quickly resolved, not by the researcher but by the interviewees themselves. Few small business participants would have the time for truly lengthy interviews (Curran and Blackburn 2001 p. 60), but would gladly provide the information if allowed to speak freely. Open ended questions regarding the evolvement of the firm, competitive moves being taken, external influences and issues being encountered, and such, would be reacted to by interviewees with vigour and in adequate depth. More specific prompts were only utilized when additional focus was needed, such as to concentrate on a category that still required saturation. Nevertheless, the prompt sheet was kept handy at all times, and also evolved as the research progressed and more was learned of the phenomenon in question.

In-depth interviews were carried out on the owner-managers of the 67 small businesses ranging in size from 1 to 49 full-time employees. As shown in the following Figure 4.3, a sequence of different sampling methods was adopted to allow for increasing converge on the core themes and their inter-relationships. The interviews on the chosen firms took place over a three year period. Either the owner/primary shareholder of the firm was interviewed, or alternatively the most senior manager, who would be expected to reflect the true strategic nature of the firm (Aragón-Sánchez and Sánchez-Marín 2005; Wiklund and Shepherd 2005). The in-depth interviews were digitally taped and ultimately transcribed, without exception, by the researcher. This truly arduous task did, however, pay dividends. The lengthy transcribing involved repeatedly listening to the recording, as spooling in transcribing is inevitable. Meanings became clearer, emergence of themes took place, and areas of focus were clarified. The transcribing in fact turned up to be a vital initial stage of theory generation as this was where many category relationships became initially evident.

Apart from the interviews and the corresponding direct observation, a limited number of interviewees provided business plans and other documentation to support their statements. The audited financial records of most of the firms were purchased from governmental archives (the Maltese financial regulator) to allow for methods triangulation (Patton 2002) with subjective data obtained in the interviews on one particular construct; firm performance. This was an important inclusion within the research method, as shall be shown in forthcoming Chapter 7. The grounded theory research technique allows for the coding, and thus inclusion, of this secondary data, as in the words of Glaser (1998 p. 8); "*all is data*". Where the research subjects allowed for it, interviews were followed by informal discussions with the interviewee, and a tour of the business premises. Similarly to the findings of Corbin (Corbin and Strauss 2008 p. 28) some very interesting data were offered as soon as the tape recorder would be turned off. A knowledge into engineering provided an additional benefit as this allowed for an open up of discussions with interviewees on the workings of the firm, and the value adding activities being deployed. Discussions such as these would further relax the owner-manager, and additional insight into the workings of the firm would be provided.

4.5 Research Method: Data Collection

Data were collected using two methods; those of obtaining and analyzing primary data as well as of secondary data. All data collected formed part of the grounded theory strategy of enquiry. Primary data were extracted from face-to-face, in-depth interviews with the owner-managers of the 67 small businesses that were researched. The average duration of these interviews was one hour, of which the main proportion was taped and subsequently transcribed and analyzed. Discussions and tours of the premises outside the 'formal' taped period allowed for the compilation of memos that were subsequently integrated into the study. Great difficulty was found in getting business owner-managers to surrender more of their time, and indeed "*small business owners are busy people, often under considerable pressure. Understandably, they may not be too sympathetic to requests from researchers for some of their time... experience indicates that roughly 50* *minutes is the maximum length of a face-to-face interview before respondent resistance is likely among small business owners*" (Curran and Blackburn 2001 p. 60, p. 74). This time limitation factor may have influenced the amount of interviews required to achieve theoretical saturation, as often saturation is obtained with between 20 and 30 in-depth interviews (e.g. McCarthy 2003). This may ultimately have served as an advantage, however, as the final typological patterns that were observed were more clearly defined as a result of the larger sample size. Secondary data were collected from two sources, the main source being the historic financial records of the firms obtained from official records held by the local financial regulator. Secondary data were also obtained from documentation provided by interviewees, such as business plans, company reports, and company web-sites, although these other sources provided only a limited additional source of innovative data. The objectives of gathering secondary data were twofold: The first objective was as a means of triangulation with primary data, particularly for the performance construct; The second objective was to allow for an integration of any additional knowledge on the firm's strategic behaviour into the grounded theory study through use of descriptive memos. Within grounded theory the methods of sampling, data collection, coding, constant comparative analysis and further sampling take place as an integrated, interactive process with blurred boundaries and evolving objectives (Elliott and Lazenbatt 2005). Having said this, the following descriptions shall attempt to break down the applied methodology into a number of discrete components, without hopefully losing sight of the thread that integrates these components together.

4.5.1 Primary Data Collection

The primary data were obtained by interviewing the owner-manager of the business, and by observing the business itself through tours through the premises when this was allowed. The term owner-manager is being used to signify the person within the firm who was essentially at the very helm of the firm and in the foremost of strategic direction setting. In most cases the owner-manager was the major shareholder of the firm whilst in others, a salaried employee. Again, in some cases the businesses were family businesses coming from a number of family successions, whilst in others the businesses had been set up by an entrepreneurial individual who was often still involved in the organization's management. In all cases, the interviewee was the most senior manager within the organization, and the one expected to be the most knowledgeable to the overall strategic direction of the company (Hambrick 1981). An example of this is Miller's (1983) analysis of patterns of strategic behaviour on 52 firms, in more than 67% of the cases interviewing more than one respondent per firm. Inter-rater reliability was high (scores of raters correlated beyond p=0.001), in only 8% of the scores was there some divergence in responses within a firm. These points argue that the owner-manager should be a reliable and adequate source of information on the strategic behaviour of the firm.

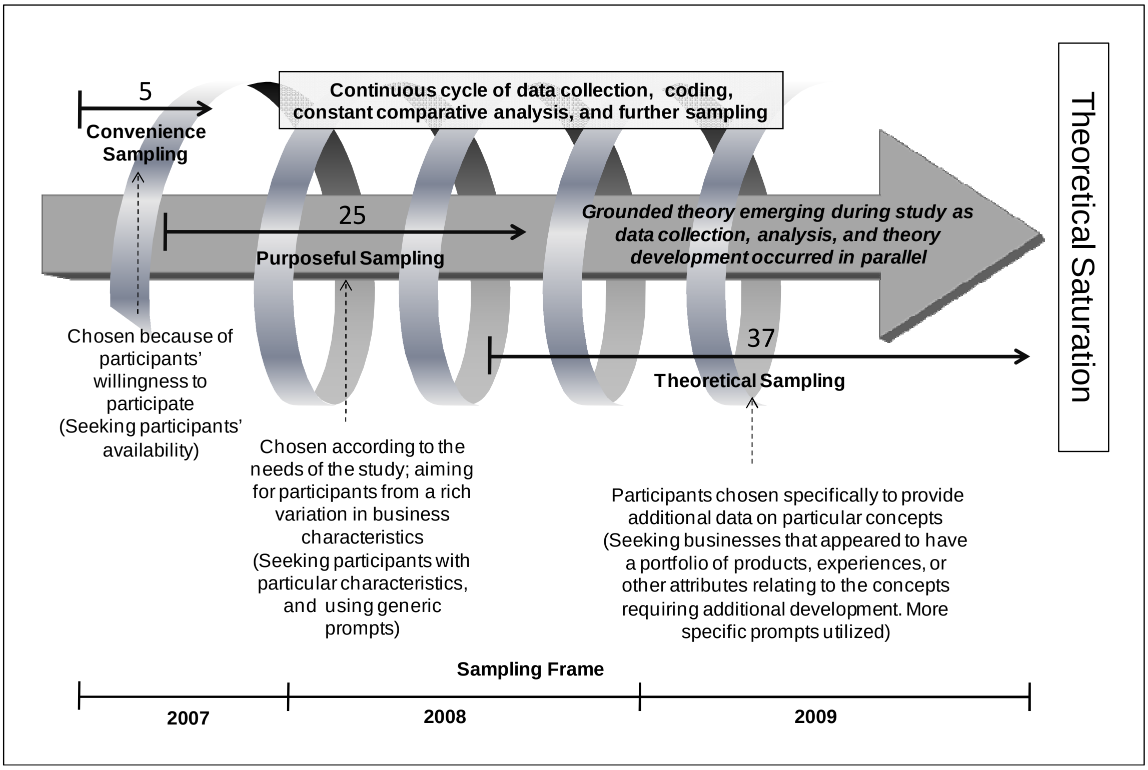


Figure 4.3: The Grounded Theory Process as Applied to the Research

Figure 4.3 above depicts the application of the grounded theory method of enquiry. Indeed, as argued by Elliott and Lazanbatt (2005) and Morse (2007), the process was very much emergent, with each completed stage adding a piece to the developing picture, clarifying what needed to be done next and what sources of data to be utilized next. Data analysis took place in parallel with the data collection, and provided for an emerging picture that dictated the direction required for further data collection. As put by Glaser and Strauss (1967 p. 45), sampling is the process of data collection for generating theory whereby the researcher jointly collects, codes and analyses her data and decides what data to collect next and from where, in order to develop an emerging theory. Elliott and Lazanbatt (2005) posit that the sampling strategy cannot be pre-designed before the grounded theory research begins, but can emerge only from the data analysis. Whilst the sampling strategy was indeed emergent, it was nevertheless largely based upon a set of three principles advocated by Morse (2007). The first principle is well honed research skills; the more targeted the content of the interviews, the better the data and the fewer the interviews are necessary. Flick's (2006) technique of adding increasing structure to an emerging interview, directing the participant towards areas of interest, was effectively utilized here. The second principle is that it is necessary to locate excellent participants to obtain excellent data. Participants must be sought who are knowledgeable about the phenomenon under investigation, they must be willing to participate, and must be reflective and capable of articulating and expanding upon the phenomenon. Interviewees are selected whose viewpoints reflect different, even contradictory perspectives (Rubin and Rubin 2005). Here one notes the complete divergence from random sampling, of inferring out a picture to a wider audience. This leads to the third principle; the sampling strategy must be targeted and efficient. The samples must be the best cases accessible, and not a random representation. Collecting too much data results in a situation of conceptual blindness for the researcher. In grounded theory research the data are inherently biased, deliberately sought and purposely selected. By selecting cases rich in data, such as the best cases and the worst cases, the phenomenon emerges more quickly. It is clearer, conceptually more dense and better delineated. Morse (2007) likens sampling to a normal distribution. With random sampling one will have most of the data around the mean, overloading the model with the most common events and inadequate data about the less common, possibly going as far as removing the outliers. Variety and difference are thus much sought after characteristics in a grounded theory sampling strategy.

The sampling strategy that ultimately emerged is shown in Figure 4.3 to have undergone three general, if somewhat overlapping, stages. Initially there was no idea, no knowledge of the amount of cases that would have to be analyzed before saturation would be reached. Bryant and Charmaz (2007 p. 13) avoid giving a sample size, but do refer to emerging theory as being given shape by the differing views of a large number of participants. Stern (2007 p. 117) argues that, from experience, theoretical saturation is usually reached with some 20 to 30 interviews, at which point theoretical saturation of categories is reached and no new data emerges. Whilst almost all other grounded theory protagonists will avoid quoting sample sizes and argue saturation as a state in which no new insights emerge, Charmaz (2006 p. 114) comes up with an interesting, if somewhat different insight. Saturation can be reached, even early on into the research, but this is not necessarily a good thing. If the prompts, the questions utilized by the researcher to guide the participants are of inadequate depth and do not solicit, in return, conceptually deep responses, then saturation of a limited number of common, trivial categories may result.

The research will grind to a halt in its early stages, with little theoretical depth and no viable contribution to knowledge. Kelle (2007 p. 208) also argues this case, and looks at the role of sensitizing concepts applied by the researcher in the form of open-ended or unstructured prompts to guide the interviewees towards providing quality data.

The first stage of the sampling strategy (see Figure 4.3) consisted of a limited set of convenience samples, totaling five in all. The five business owner-managers were all well known to the researcher, were highly knowledgeable of their respective businesses and industries, had very good communication and conceptualization abilities, and were enthusiastic about participating in the research. These first interviews served a number of purposes. One outcome was the provision of five in-depth interviews that were instructive, informative and of excellent quality. A second outcome was a fine tuning of an initial prompt sheet (final version shown in Appendix 4) and a refining of the interview mechanisms and tactics. A third outcome was the opportunity to trial out different approaches towards the level of structuring of the prompts utilized. Starting off with open ended, unstructured questions and then converging, through prompts, towards areas of interest was seen to be a very effective approach. Data management techniques and tools were tested. And so on. A final outcome of importance was that the 5 interviews made up a part of an important first stage of analysis; that of *in vivo* coding which will be described later on. The spread of business characteristics for the five initial samples was also of importance. Two businesses were service firms, two were in retail and the fifth was a manufacturing firm (see Firms numbered 1 to 5 in Appendix 3). Firm sizes here ranged from 6 to 47 full time employees. All the five businesses came from different industries with largely different competitive and environmental conditions. The interviews, which included discussions outside the taped period and tours of the business premises, each took between one to two hours in length. A main objective of these first interviews was to attempt to maximize on two important parameters; width and depth. Conceptual width was required to try to touch on as many potential categories as possible, depth was required to gain an initial insight into the properties and dimensions of these categories.

Following the initial set of five convenience samples, a second batch of interviews was carried out in what Hood (2007) would define to be purposeful sampling. The objective of this second batch of around 25 participants was somewhat different to that of the initial convenience sample. The aim was to further extend the range of categories that had already emerged until a point in which no new categories were emerging, that is, saturation of the category set. Purposeful sampling has an objective different to that of theoretical sampling (Charmaz 2006) in that it looks towards fixed dimensions, fixed quotas and not theoretical concerns. Locke (2001 p. 80) advocates the use of purposeful sampling at the initial research stages to gather data that are rich and varied. This richness and variety is, in itself a result of sampling a rich and varied set of participants. Whilst the main aim was a saturation of the category set, it was also expected that the purposeful sampling stage would go a long way towards populating the categories with respective properties, and in establishing initial hypothetical relationships between the categories. It was not expected that the approach would allow for full theoretical saturation, as the purposeful sampling has one significant limitation, it is not directional and hence does not really allow a focus on particular categories, themes, relationships, etc. This would then be taken care of by the third phase, that of theoretical sampling, although in reality this sequential strategy was far more emergent than intended.

The sampling frame for this second wave of research was obtained from the '*International Business Directory of Products and Services'*, years 2006 and 2007, published by Malta Enterprise. Malta Enterprise is the Maltese Government's agency responsible for the promotion of industrial development in Malta, and is particularly focused on small business management and support. The directory in question provided detailed information for small businesses on the Island, including size, type of business, age of establishment, contact details, and main value adding activities. The strategy for selection of cases was fairly straightforward; samples were selected based upon a maximum spread of business characteristics as possible. The aim was to include within the set a large range of types, sizes and operations of small businesses. The list in Appendix 3 shows the final list to contain a plethora of business types and sizes, such as a car park, aqua bio-marine, architectural services, quality sorting, electrical installations, stainless steel manufacture, PC retail, upholstery, carpentry, perfumery, a supermarket, and so on. Business sizes ranged from 1 full-time employee to 49 employees. The list is not exhaustive, but did achieve the objective of covering a wide diversity of small business types and sizes. The pre-selection of cases was far from a straight-forward affair, and the forthcoming chapter on *Data Management* will detail how, on average, one in every five participants identified was ultimately researched.

The third phase of interviews covered some 37 participants (as again, the boundary for where purposeful sampling ended and the third sampling strategy commenced was far from clear), and was based upon a theoretical sampling strategy. In theoretical sampling one looks for participants who know about particular parts of a problem, and then piece together what they collectively know (Rubin and Rubin 2005 p. 64). Hood (2007) defines theoretical sampling as an approach towards choosing respondents that will allow categories to become saturated, and allow the theory to be complete. Glaser and Strauss (1967 p. 45) describe theoretical sampling as "*the process of data collection for generating theory whereby the analyst jointly collects, codes, and analyses his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges*". More explicitly, Morse (2007) compares theoretical sampling to the work of a detective; looking for clues, sifting and sorting, and filtering out the irrelevant data to ultimately create a plausible case. The researcher seeks participants who have particular experiences and knowledge of the concepts under investigation.

The sampling frame for this third wave of research was once again obtained from the '*International Business Directory of Products and Services'* published by Malta Enterprise, this time for years 2007 and 2008. A more careful scrutiny of the value adding activities of the candidate firms was carried out, together with any other attributes that could identify the firms as potential providers of information relating to a range of categories that had unclear relationships or under-developed properties. Businesses were thus sought that appeared to have a portfolio of products, experiences or other attributes relating to the areas requiring additional development. Again, this was far from an exact science. The success rate in targeting participants was again some one in five, meaning that a lot of effort had to be put into every participant that ultimately formed part of the final sample. The interview structures were somewhat more structured than those of the earlier purposeful sampling. The interviews still started off with open ended questions, aimed at assessing whether the participant could enhance a targeted category or concept, or if not, some other category or relationship that was still under-developed. As soon as was feasibly possible, additional structuring was used to focus the participant towards a choice area or concept. This technique couldn't have been more like Morse's (2007) sifting and groping for clues, as respondents often failed to provide data pertaining to a sought concept but instead provided a wealth of data in another, equally under-developed area.

Saturation of the categories and their inter-relations was achieved after roughly 30 of these 37 final interviews. Towards the conclusion of the 30 interviews, less and less innovative data were coming in, and fewer enhancements were being made to the emerging model. Continuing the research further still allowed for a confirmation that saturation was achieved, as nothing but repetition emerged. The further interviews did serve another purpose, that of validating the model that had emerged (more on this in

Chapters 5 to 7). As posited by Rubin and Rubin (2005 p. 67); "*As you continue to interview people from each of the relevant categories, each new conversation should add less and less to what you already know, until all you start hearing are the same matters over and over again. At that point, you have reached what Glaser and Strauss term the Saturation Point*". One observation that also poses a question is whether the three-staged sampling strategy was the most effective means of acquiring the quality data required, in line with Morse's (2007) third principle of adopting an efficient, focused sample targeting strategy. A total of 67 small businesses were ultimately researched, substantially more than the 20 to 30 argued by Stern (2007). The counter argument placed here relates to Charmaz's (2006) concept of premature saturation. The purposeful sampling exposed a framework for small business strategic behaviour (Figure 5.2) that is rich in dimensionality and detail. Moving straight into theoretical coding may possibly have achieved the objective of theoretical saturation without fully extending the boundaries and limitations of the model. A quicker conclusion may have been achieved, but not necessarily a more complete one. As posited by Morse (2007), a good sampling strategy will change during the course of the research, allowing the researcher to complete the study as efficiently as possible.

Throughout all three phases of the sampling strategy, observation was included as an additional benefit stemming from the face-to-face encounters. As argued by Boyatzis (1998 p. 1); "*Observation precedes understanding. Recognizing an important moment (seeing) precedes encoding it (seeing it as something), which in turn precedes interpretation*". Whilst only a limited amount of participants offered a tour of the premises, in nearly all cases it was possible to assess the surroundings to the interview, manufacturing processes taking place nearby, samples and posters that were on demonstration, achievement awards hung on the wall, and various other items. This gave a helping hand in the informal discussions with the participants outside that of the taped interview. Interviewees would indeed speak somewhat more freely once the digital tape recorder was switched off. The researcher's engineering and business consultancy background proved immensely useful, as there was nothing that a participant likes most than to discuss the value adding processes of the business, be they technological or knowledge based. Owner-manager perspectives were clarified, business processes made more understandable, the culture of the organization made more evident. Field notes were taken for each case, and translated into memos when doing the analysis. Through use of these memos the observed data were included into the grounded theory method and into the model that was developing.

4.5.2 Secondary Data Collection

Secondary data were collected as a support measure to the main interviewing method, and as a means of triangulation with one of the categories, that of performance. This application of triangulation is seen to be an effective way of increasing both reliability and validity in qualitative research (Kisfalvi 2002). Collection of secondary data was carried out through two means, both aiming to support and integrate into the grounded theory method through the application of memos. The more basic means was the acquisition of any documents of strategic value that the participants would have at their disposition, or obtainable from the company's web site. This turned out to have certain limitations, as strategic documents such as business plans, strategic plans or annual reports, were nearly non-existent. The few businesses that did have a business plan usually would have had it compiled by Malta Enterprise advisors, and would have little knowledge of its content. The scant information of strategic value was read through, and where beneficial, integrated into the grounded theory study via memoing. The main source of secondary data was abridged company financial statements, obtained through licence from the Maltese financial regulator. These financial records are accessible for business or academic users that are given a license by the authority, once the applicant's personal details would have been verified. This is one of the benefits of researching limited liability companies; the availability of audited financial statements, albeit abridged versions. Data files were downloaded and accessed in PDF mode from the regulator's web site.

The abridged financial records obtained from the Malta regulator were available for most of the 67 businesses with a few exceptions, mainly where it was impossible to identify the business with certainty from the records or where a full data set was unavailable. An example of this, that was resolved, was one company that had the date of inception as part of its registered trade name whilst on all public records this date was omitted. There were two limitations with the available financial records that curtailed their use. The first was a time lag of one to two years, for example records downloaded towards the end of 2009 usually contained financial statements for 2008. A second limitation was in the detail of the statements, providing only a summarized picture of the business's audited financial accounts. The following financial information was usually available for the individual businesses:

1. The share capital, both authorised and issued.
2. Abridged balance sheets for two consecutive years (mainly for end of 2008 and 2007)
3. Statements of changes in equity.
4. A fixed assets schedule.
5. Notes to the abridged financial statements showing information such as changes in reserves.

The data, albeit limited, does allow one to draw important comparisons into the financial performance of the firms and how they progresses from one year to the next. Again, data were integrated into the developing grounded theory method through the application of memos, and explained through graphical interpretations as shall be demonstrated in the forthcoming Chapter 7.

4.6 Research Method: Data Management

The quantity and depth of data ensuing from a grounded theory method of enquiry demands a data management strategy that is supported by the correct methods, tools and techniques. The method is far different from a quantitative method of enquiry where the research instrument is developed and launched in line with pre-established multivariate techniques, with validity and reliability criteria well embedded in the design. In a grounded theory strategy some components of data management may be emergent, others well thought in advance to the collection of the first data set. The researcher is the research tool (Goulding 2006 p. 18). Whilst in much of the qualitative research the researcher learns by doing and develops a customized approach (Creswell 1998 p. 142), the data management component must leave little to chance, and this for many reasons not least of all efficiency and ethical considerations. Whilst no manual will be found that dictates how qualitative data should be managed, a previous M.Phil research project had prepared the researcher for a disciplined approach towards the data management. In particular, three guidelines were established from the start of the research, and rigorously maintained throughout. These are listed below:

1 Data management had to be robust, structured, disciplined and traceable. All data had to be processed as soon as possible after gathered, and compartmentalized in an easily accessible, usable, yet secure format. Backups would be regularly created, but these too had to abide by the above criteria. Nothing would be left to chance, and order would be of paramount importance. Large volumes of data were expected and had to be properly processed from the very start.

2 Data had to be accessible for interpretation from the beginning. This meant that all data acquired through the method would need to be subject to the same processes, no matter when they were gathered. This would allow for constant comparison to take place straight away.

3 The tools and methods adopted for the research would have to be flexible and adaptable to the inclusion of additional data, as well as to inclusion of data from different sources. One method, and the supporting tools, had to be devised that would allow the integration of the primary and secondary data that would be gathered.

4.6.1 Tools and Techniques

Four factors had to be catered for in the data management; collection, capture, storage, and access. Collection refers to the methods and tools required to gather the data, particularly the main interview-based data. Against Glaser's (1998) advice but in line with more contemporary authors (Charmaz 2006; Locke 2001), it was planned from the start to digitally record all interviews and benefit from the wealth and depth of data that ensued. This would also allow for more time to take additional notes in the interviews, and for focusing, and reacting to, the discussions at hand. In fact, on small business research, Curran and Blackwell (2001 p. 85) argue that "*in practice, all face-to-face interviews should be taped. Not only does this provide a record of the interview but enables interviewer performance to be monitored…*" A digital tape recorder was utilized for this purpose. Participants were informed in advance that the interview would be recorded (see Covering Letter in Appendix 5), and were informed of the conditions that would be applied in and after the interview (particularly their and their organization's guaranteed anonymity). A lot of care was taken to make participants feel as comfortable as possible in the interview, and not to feel dominated or intimidated in any way. Rubin and Rubin's (2005) method of responsive interviewing was adopted, consisting of the following five underlying principles: The interview is about obtaining interviewee's interpretation of the world around them, it is their rendition of the phenomenon that matters; The personality, style, and beliefs of the interviewer matter, as interviewing is an exchange with constructionist implications; The personal relationship, and position of trust that results between the interviewer and interviewee carries with it important ethical implications; The interviewer must not impose and must understand and control for her biases; Finally, the interviewing design must be flexible and adaptive.

Data capture followed every act of data collection. Digitally taped interview audio files were uploaded into a program called *F4*, used purposely for transcription work. Using this *F4*, a foot pedal and headphones the interview recordings were transcribed into text files in *rich text format*. This was an immensely time consuming task, as it was planned from the start that the researcher would personally transcribe each and every interview. The value to be gained by listening and typing, listening again and checking, was simply too much to lose. Interviewees would speak in both English and Maltese, often switching between the two intermittently. However, as the researcher was fluent in both languages, this was not a problem. Data management and storage, as well as subsequent analysis, took place using MAXqda software (MAX Qualitative Data Analysis), particularly MAXqda2007 and MAXmaps, for which a user license was purchased. MAXqda is one of a range of qualitative data management tools that are designed for the coding activities related to grounded theory. Other options available are *Atlas*, *NUDist*, *n-vivo*, and such. The choice of MAXqda was made after a detailed internet review that indicated the growing popularity of the software, and texts such as Flick (2006 p. 351) that highlighted the software's qualities and benefits. Of interest to note is Corbin and Strauss's (2008) use of MAXqda as *their* preferred choice. Three main advantages are to be found in the chosen software. First of all it is relatively easy to use, with four interactive screens that allow the user to simultaneously view a document list, a coding hierarchy, the text under analysis, and the text of a chosen category for a chosen participant (see the following Figure 4.4 for an example, as well as a coding example in Appendix 7). MAXqda will allow for importation of all of the texts under study into one single project file, for the easy toggling between these texts, and for comparison of codes between one text and another.

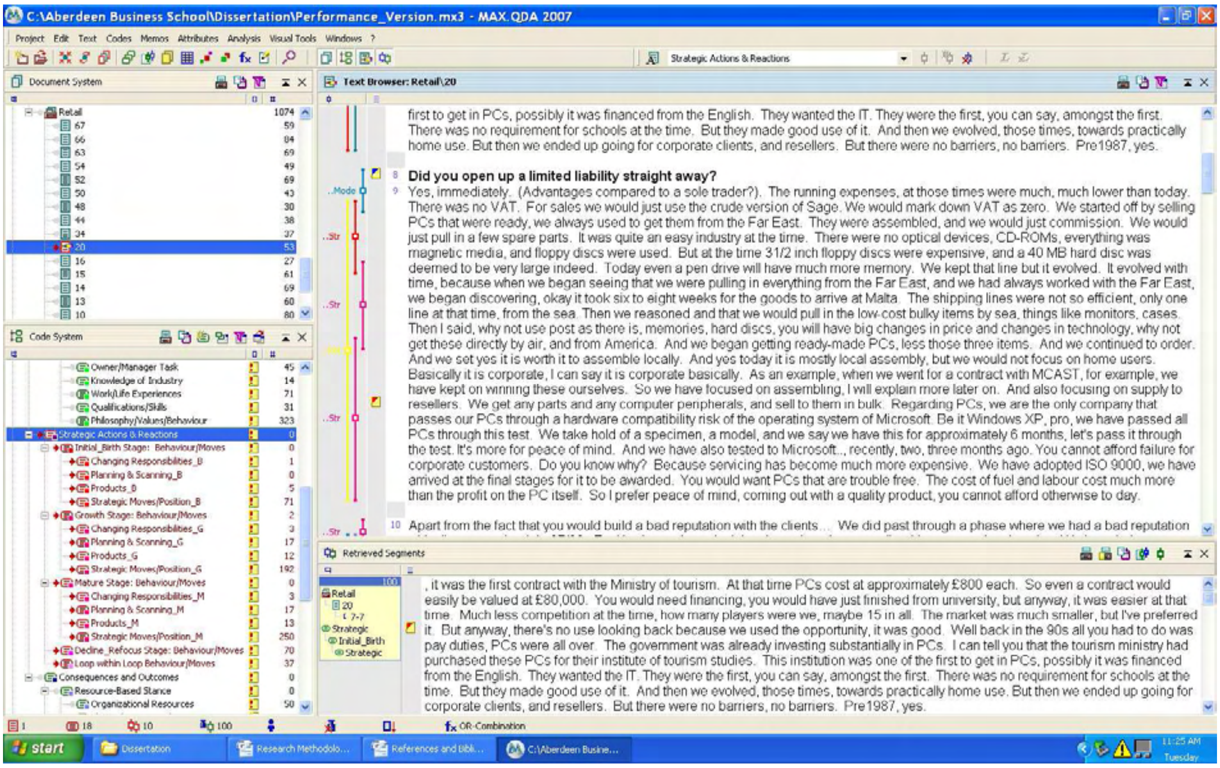


Figure 4.4: Screen Shot of MAXqda2007 in Use in the Research

A second advantage is the dimensionality of the coding configuration, allowing up to 10 coding layers, as well as easy interaction between codes and linking of codes to memos. A third advantage of the tool is in its thematic capabilities, making the rigorous task of constant comparison more easily applicable. Thematic applications available consist of a mapping function (MAXmaps), a code matrix browser, a code relations browser and a text comparison chart. The advantages of thematic mapping should not be underestimated, particularly in view of its contribution towards the analysis stage. The map is an interactive tool, with links to all the text and to the categories, their properties, the codes relating to the categories, and the memos that describe and link the categories. By simply clicking on an icon on the thematic map, one can choose to analyze all the codes and memos that relate to that icon. This can be carried out for one particular text extract or alternatively for all the transcribed interviews in sequence. On software systems, Kelle (2005) in fact argues that computer-assisted categorization, archiving and structuring of qualitative data is necessary, as it allows for the systematic searching for empirical evidence to further ground theoretical concepts.

4.6.2 Data Management Strategy

In line with the tools and techniques that were adopted, the sequence for data collection and management followed four steps for each and every case researched. The first step was the importation of the transcribed interview text into a MAXqda project file (that was constantly growing with new text inclusions and their analysis). The tool allows for a practically unlimited amount of textual data to be imported, and structures these data files in a 'Document System' window. A second step was the processing of the textual data by implementing a coding exercise that would link each and every concept mentioned in the transcription to a corresponding category within a hierarchy of categories (see Section 4.7 on *Data Analysis* for a more detailed explanation). The third step was the compilation of memos and linking of these to corresponding categories. Memos would be compiled from simple observations, from the field notes taken, or from the secondary data such as the financial records of a business. The following Figure 4.5 depicts a sample screen shot of a memo and its relationship to the text and to conceptual categories. A memo coding scheme was utilized, in which memos were classified into four types and identified by a basic colour scheme. Memos with a large red **T** were theoretical memos, summarizing the main strategic characteristics of the business, and key linkages to theoretical categories. Memos with a top left red corner were relational memos, describing linkages between different categories and arguing the logic behind these linkages. Memos with a top left blue corner were descriptive memos, used for descriptions, observations and conclusions on a particular category, or property of a category. Finally, memos with a green corner were used for generic observations and descriptions targeted for the point in the text where the memo was placed.

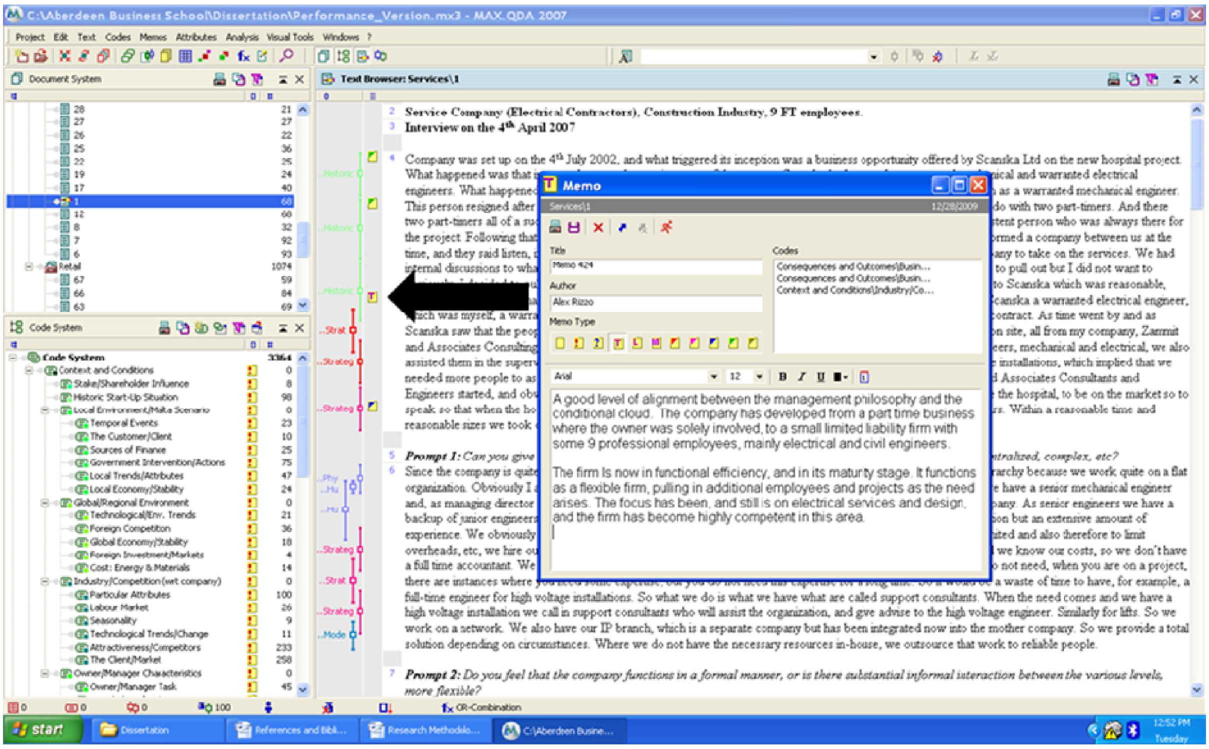


Figure 4.5: Screen Shot Depicting a Theoretical Memo and Related Categories

The fourth and final stage would be the application of MAXqda's textual and thematic tools to analyze and compare the new data (within itself and to other, existing data), and to enhance the emerging thematic maps accordingly. Particularly, the MAXqda *Text Retrieved Segments* was an excellent text analysis tool. These four stages were repeated for each data inclusion relating to a business that had been interviewed. One single MAXqda project file ensued and contained the ever-increasing data, meaning that there was no need to import or export any other data when carrying out analysis. A scheme for regular data backup was also implemented.

4.7 Research Method: Data Analysis

Data analysis took place at three levels of increasing theoretical abstraction. A simplification of this analytic process is visualized in Figure 4.6 below, and described in detail in the forthcoming sections. Goulding summarizes this hierarchy of theorizing very succinctly: "*As the researcher proceeds with a piece of work, he/she should pass through a number of stages, each of which, in principle, should add to and refine the theory. In the early stages of data collection, interpretation may consist of, for example, interview transcripts and descriptions of events occurring within the data. As patterns are noted and relationships tentatively identified, the next stage is one of abstraction, through to conceptual identification, and finally theorizing*" (2006 p. 44). The triangles in Figure 4.6 visualize the convergence from an initially wide coding scheme to a final, limited set of integrated theoretical concepts that provide a parsimonious model for the phenomenon under observation.

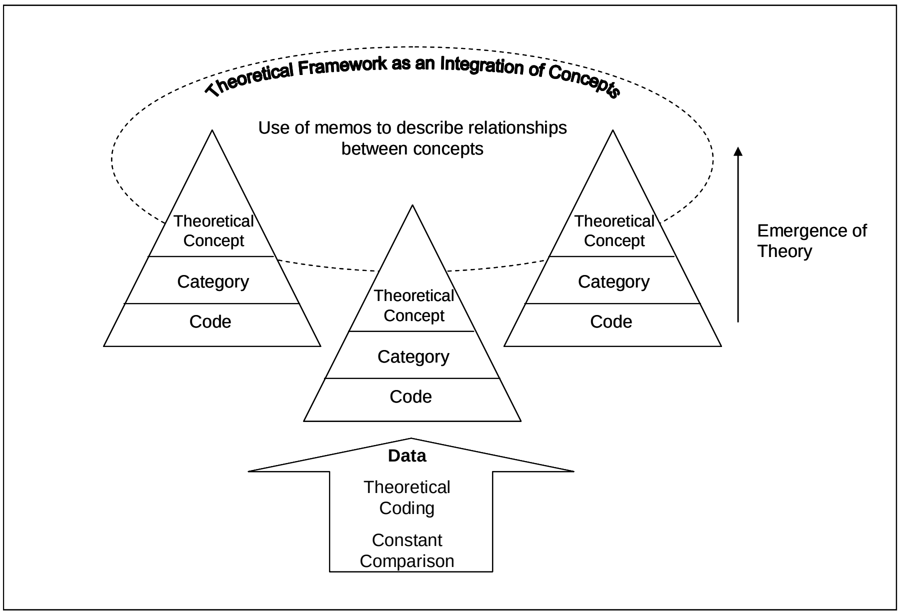


Figure 4.6: Visualization of the Analytic Process

The general approach adopted has been a sequence of coding of the transcribed data (analytic level 1), creating theoretical categories from the codes (analytic level 2), and then building up further depth of theory within the categories by developing their properties and using memos to further explain the theoretical relationships within and between the categories (analytic level 3). Constant comparison will be shown to have taken place in a number of distinct stages of the research. As Glaser (1998) argues, constant comparison can add to the model being developed at any point in time. The researcher can latch onto her developing research and add new categories and hypothesis, refining and further developing her work and the theory ensuing.

Before detailing the three levels of analysis mentioned above, it is appropriate to discuss just what is meant by 'theory' in grounded theory research. Denzin and Lincoln (1994, 2008) describe grounded theory as a set of systematic statements of plausible relationships proposed amongst concepts and amongst sets of concepts. They argue that most grounded theory studies have been directed at developing substantive theory, more because of the researchers' substantive interests than due to the nature of the methodology itself. If one is to adopt the logic of Glaser (Glaser and Strauss 1967), the approach being adopted within this research is that of substantive grounded theory, as opposed to formal grounded theory. The researcher is expected to focus clearly on one, and only one, of these two levels of research. Substantive grounded theory analyses data from one particular substantive (i.e. empirical) area, such as the strategic behaviour of small firms. Constant comparison of data within this area allows for building a theory based upon core category/ies derived within that particular area. Formal grounded theory takes on a further level of abstraction. It looks now towards studying several substantive areas, meaning more multivariate conceptual complexity. Sampling is done more widely, and in other substantive areas, and additional constant comparison made with the aim of conceptualizing the general implications. The result, a formal grounded theory such as 'strategic behaviour' in general. This goes beyond the objectives of this research.

4.7.1 Level 1: Identification of Conceptual Categories

The first level of theoretical abstraction may not have been the most exhaustive but was arguably the most important of all the stages of analysis. If one is to look at the category schema detailed in Appendix 6 as well as to the bottom left of the MAXqda screen shot in Figure 4.4, one sees an established list of conceptual categories, sub-categories and relating properties. A coding exercise would consist of 'dragging' text extracts from the text document (top right of Figure 4.4), and into the category that conceptualizes the theme behind the text extract (bottom left of Figure 4.4). There are different arguments regarding this process. At one extreme Glaser (1998) will advocate coding each and every line, whilst constructionists such as Charmaz (2006) and Locke (2001) will advise the researcher to be more practical and code incidents, themes and concepts, and not simply batches of words. Whatever the approach taken, a very important hurdle has to be overcome at this stage. Coding is the compartmentalization of themes into boxes, or drawers (Strauss and Corbin 1998) with one objective; facilitating, as well as inducing, constant comparison. In this means comparison of concepts will take place instead of comparison of text. However, to put a text code into a compartment, the compartment has to be formulated in the first place. On the other hand, for a compartment to be formulated, one must first know that there is a grouping of codes that fits into that particular compartment. This is somewhat of a chicken and egg situation regarding which comes first.

Kelle (2007 p. 196) argues that when constant comparison is applied, it will reveal two different kinds of theoretical properties; possible sub-categories to a given category, and relations to other categories. But the decisive question put forward by Kelle is this; according to which criteria do the incidents vary? Likewise, Hambrick (1984 p. 40) posits that strategy taxonomists have a responsibility to theoretically ground their efforts through the choice of variables (categories, in this case). In McKelvey's guidelines for the empirical classification of organizations, taxonomic studies are seen to be the process of arranging phenomena into categories, making the classification approach underpinning grounded research ideal for strategy research. "*The classificatory type concept is the most useful one for the scientific activity of inducing theories about certain phenomena and deducing testable hypotheses. It provides the basis for explanation, prediction and scientific understanding by identifying uniformities in the phenomena about which laws and principles may be formed*" (McKelvey 1975 p. 510). To conclude the argument, the first abstraction stage of identifying the category set that best captures the many themes and concepts, was indeed both a delicate and important task.

The approach adopted towards this initial categorization scheme was that of *in vivo* coding, applied to the first 15 research cases. *In vivo* coding is a practical approach to coding whereby even the smallest of themes, incidents, ideas and acts are looked for in the text, and selected to allow an emerging category name to be the highlighted code segment itself (Strauss and Corbin 1998 p. 105). For example, looking at Figure 4.4, the emerging code system (bottom left of screen shot) would not be a final category set but a long list of text extracts that relate to all of the evident themes and conceptual incidents. For each research case the list would be unique and exhaustive, with hundreds of emerging *in vivo* codes. This *in vivo* coding can be seen to be the first phase of constant comparison, and was carried out in two sequential stages. In the first stage, the first five research cases (that is, those of the convenience sample) were *in vivo* coded. This provided five long lists of phrases that related to the incidents, themes and concepts of importance in the texts. MAXqda provided the tool to list out these *in vivo* codes for easy viewing. The five lists were carefully compared, and a frequency table was drawn up that demonstrated the repetition in the codes. This critical exercise gave a first indication of emerging conceptual categories; some *in vivo* codes were already latching into conceptual groupings more readily than others.

The second sequential stage was the *in vivo* coding of a second batch of 10 data sets (that is, 10 of the second set of 25 purposeful samples). Again, this produced an exhaustive set of 10 lists of *in vivo* texts. This second data set were compared and contrasted to the codes in the initial frequency table. This can be described as an exercise in both confirming, in enhancing and in eliminating codes that were either showing repeated emergence of concepts or appearing to be inconsequential. This frequency-based exercise was thus a category development stage, where the process of comparison was allowing for categories to be developed from the coding exercise. A category could now be observed to be a code that depicted a key concept, or a particular emerging theme. These categories would ultimately form the main dimensions and corresponding sub-dimensions of a model for small firm strategic behaviour. This comparison stage was halted after these additional 10 *in vivo* coding exercises, as a fairly robust category list had emerged (final list shown in Appendix 6), one that now required additional but gradual enhancement, and validation. An initial framework for small business strategic behaviour had now been formed. Categories were given names corresponding to their conceptual meaning, and set out in an operational list as shown to the bottom left of Figure 4.4. A colour scheme was applied to differentiate the categories, as well as the codes that related to the categories. A more detailed coding example is shown in Appendix 7.

4.7.2 Level 2: Coding Methodology

Whilst Analysis Levels 2 and 3 are at different levels of theoretical abstraction, they both took place simultaneously. The 'Level 2' coding methodology was an exercise to code the texts relating to the remaining cases, that is the 67 cases including the 15 cases that had already been *in vivo* coded. The exercise had a two-fold objective; verification of the category scheme that had emerged, and further enhancement of the conceptual depth of the categories through development of the properties and dimensions of the various categories. Strauss and Corbin (1998 p. 117) describe properties as the general or specific attributes of a category, whilst the dimensions represent the strength of each property along a range, or continuum. Charmaz (2006) sees properties as having analytic power in the way they break down categories into distinctive theoretical components. From a more operational viewpoint, the Level 2 exercise consisted of coding the remaining texts into the draft category scheme by highlighting and dragging each visible theme, concept or incident into its relevant category. As soon as a theme would be highlighted and dragged into a category (always using MAXqda) the highlighted text would automatically be marked by MAXqda as a code, one that related to the conceptual category it had been tagged to and identifiable by the same colour scheme as that category (see example in Appendix 7). This coding activity was an important second stage of constant comparison, and sometimes a very challenging one. Every text extract that demanded coding had to be carefully matched to the category scheme, and related to the correct category or property. Conceptual overlaps between categories and between properties had to be resolved, and as a result, the category scheme was further developed and refined. As more and more of this comparison work took place, less fine tuning to the category scheme was necessary. Saturation was being approached.

Three coding techniques were used, generally in line with Strauss and Corbin's (1998) and Charmaz's (2006) coding paradigm of open, focused and axial coding. Open coding (*initial coding* in Charmaz 2006) is the rigorous process of breaking down, examining, comparing and conceptualizing the data, and then categorizing into suitable category compartments. Open coding thus groups common concepts into a coding structure that reflects themes of similar characteristics and meaning. Each category and sub-category has its own properties and dimensions. It is most difficult to say where the open coding ended and focused coding started, but, generally speaking, the first few cases that were coded following the *in vivo* coding abided by the open coding technique. This operation was a rigorous exercise in constant comparison, and served to refine the category set as well as build upon category properties and dimensions.

Charmaz describes focused coding as a subsequent major phase consisting of a more directional, selective, and conceptual coding exercise. "*Focused coding means using the most significant and/or frequent earlier codes to sift through large amounts of data*" (Charmaz 2006 p. 57). This was precisely the objective at this emerging stage, and now more meaning and interaction was looked for as opposed to detail. The conceptual category scheme was already in place, but the meaning and relationships between the concepts demanded further study. Focused coding will generally result in larger code segments than open coding, but serves the important stage of grounding the model in more conceptual depth, often visible through the memos that accompany this coding stage. The third and final coding technique utilized was that of axial coding. Strauss and Corbin (1998 p. 124) describe axial coding as the process of relating categories to subcategories along the lines of their properties and dimensions. Categories are phenomena, sub-categories answer questions about the phenomena (such as when, why, how, with what consequence), giving the concept greater explanatory power. Towards the later part of the coding exercise, axial coding was used to build a category – subcategory relationship and to clarify the relationships between the different categories. However, the conceptualization required for axial coding takes us into Level 3; that of building a 'coding paradigm'.

4.7.3 Level 3: Application of a Coding Paradigm

Axial coding consists of putting data back together in new ways after open/focused coding, this by isolating categories, relating isolated categories to each other, and building even further upon the sub-categories and properties of these main categories. For this to take place, categories are placed within a coding paradigm. Both Glaser and Strauss/Corbin come up with different coding paradigms, and different arguments in favour and against. Of interest are Glaser's arguments against the Strauss and Corbin paradigm as an attempt to force the data. Whilst Glaser attacks Strauss's approach of advocating theoretical sensitivity and the use of a pre-established coding paradigm (as forcing the data), Glaser himself adopts the use of theoretical codes as a requirement in adopting a particular focus towards the research. Kelle (2005) argues that both approaches are a proactive way of pre-establishing a certain frame of mind within the researcher, hence Glaser's criticism can be seen to be largely unfounded. Kelle compares both approaches, observing that Glaser's (1998) coding theories actually draw from a large array of coding families, each with its own established theoretical basis. On the other hand, Strauss and Corbin's (1998) coding paradigm is linked to a school of thought based upon symbolic interactionism, and adopts a perspective on social phenomena prevalent in micro-sociology and emphasizing the role of human action in social life. Kelle posits that Glaser's critique of the Strauss and Corbin approach is "overdrawn", as the general Strauss and Corbin framework looks towards a general understanding of social actions and interactions, an approach that is compatible with a wide variety of social theories. The advice proposed by Kelle is that the researcher should draw upon existing theoretical knowledge when establishing theoretical concepts, but should not approach the research with pre-established hypotheses.

The approach that has been adopted in this research has been to apply the Strauss and Corbin coding paradigm, what they call the 'Conditional and Consequential Matrix' (Corbin and Strauss 2008; Strauss and Corbin 1998). The reason for this is simple; the paradigm fit very well to the category schema that was developing. The Conditional/Consequential Matrix consists of a relationship between content and process through the identification of three conceptual pillars; conditions, actions and interactions, and consequences. Kelle (2005) argues that Strauss and Corbin drew upon one general model of action in this matrix, rooted in pragmatism and symbolic interactionism, in order to build a skeleton or axis for developing grounded theories. This focuses on the analysis and modeling of the action/interaction strategies of the actors, and the context within which these actions were played. In a way this is the argument of grand theory versus substantive theory, the matrix being the grand theory that would be adopted by researchers to create substantive theory. Bryant and Charmaz (2007 p. 9) argue that Strauss and Corbin's Conditional/Consequential Matrix can be applied, but not mechanically: "*In an analogous way that extant theory concepts should earn their way into a grounded theory analysis, so too should using preconceived methodological tools. Such use should only occur after researchers carefully assess whether a given technique has earned its way into their respective methodological repertoires for their specific research problems*". This was, in fact, the outcome of the research in question, and the matrix was adopted only when it was convincingly apparent that the main axis of context, actions and consequences explained very well the conceptual orientations of the emerging category scheme.

In line with Strauss and Corbin's Conditional/Consequential Matrix, categories were re-classified into three main constructs; those of context/conditions, strategic actions/interactions, and consequences/outcomes (Figure 5.2 and Appendix 6 demonstrate this). The final stages of theoretical sampling and coding that took place utilized axial coding, that is, coding around the three main categories (the following Chapter 5 describes this activity in detail). New text being coded fit far more neatly into the category framework that was now in line with the Conditional/Consequential Matrix. Inter-relations between the categories became more apparent, conceptual arguments in memos more robust, and an all-important relationship between content and process better established. Theoretical saturation was established at this final stage. This follows Strauss and Corbin's logic that "*if one studies **structure** only, then one learns **why** but not **how** certain events occur. If one studies **process** only, then one understands **how** persons act/interact but not **why**. One must study both structure and process to capture the dynamic and evolving nature of events*" (1998 p. 127). Figures 5.1 and 5.2 in Chapter 5 depict the final framework for small firm strategic behaviour, showing the contextual and processual constructs and how they relate. Chapters 5 and 6 explain the logic behind the constructs, and their interaction, in more depth.

4.8 Ensuring Quality Research

Whilst quality in quantitative research is focused towards reliability and validity criteria, in qualitative research various quality criteria are stipulated by the different authors. Patton (2002 p. 93) advocates a plausibility of findings, credibility, impartiality and independence of judgment, and comfirmability, consistency and dependability of data. Chiovitti (2003 p. 427) argues that grounded theory research should be based on the underlying concepts of credibility, auditability and fittingness. Authors such as Bryant (2002) and Suddaby (2006) posit that the quality of grounded theory research is more directly dependent upon the researcher's understanding of the phenomenon under observation than most other methods, meaning that an informed researcher is required for a quality outcome to be achieved. Douglas (2004 p. 63) provides a detailed list of quality criteria for grounded research studies, consisting of generalizability (transferability) to diverse situations within the substantive area, consistency of findings, credibility based on richness of data and the analytic abilities of the researcher, neutrality in acting without judgment and undue bias, confirmability by leaving an audit trail back to the raw data, and dependability through the use of multiple researchers. Glaser (1978) is more generic, observing that when a grounded theory works it means that the theory must explain what has happened, predict what will happen, and interpret what is happening in the particular area of substantive enquiry. A quick overview of the salient quality-related issues that have been discussed so far is thus in order. The forthcoming three thesis chapters that detail the outcomes of this research shall also serve to substantiate the following summary. In all, four main quality criteria are deemed to be of particular importance, and have been given prominence in the application of the methodology.

Criterion 1: Quality data. Various factors tie down to this issue. Respondents were sought that could provide data rich in content and variety. This was complemented by an emergent sampling strategy of convenience, purposeful and then theoretical sampling. A gradual structuring of interviews (increasing in structure as interviews progressed) was aimed at maximizing the quality of data gathered. Methods triangulation sought to integrate qualitative and quantitative data (always within the same grounded theory method of enquiry). The cyclic process of data collection-coding-constant comparison-further sampling allowed for a dynamic approach towards gradual category saturation. The grounded theory approach also allowed for a control over error due to respondents' use of retrospective accounts, as this is seen to be a problem in strategy research (Golden 1992). Individual, unrelated business respondents were used to saturate common categories, confirming and reasserting one another's submissions without an incentive towards bias. Small business owners also had no incentive to cast past decisions in more or less favourable light. The more direct, personal involvement of owner-managers allowed for better recall of historic events. Triangulation with quantitative performance data strengthened the research and its subsequent findings.

Criterion 2: Quality management of the data. All the primary data collected were treated in the same, rigorous and consistent manner. All interviews were conducted by the researcher and transcribed by the researcher. Digital recordings were transcribed into text files that were immediately integrated into a single MAXqda project file. Secure backups were kept, as was a secure data base of respondent details. The MAXqda project file allowed for additional data to be integrated with existing data, and for data analysis to take place at any stage of the research. This was most important, as the transcribed interviews provided over 290,000 words of transcribed text. Secondary financial data were managed in a separate data base, securely kept and carefully archived, and integrated into the MAXqda project file through use of memos.

Criterion 3: Quality analysis and interpretation of the data. This took place in conjunction with the gathering and management of the data. *In vivo* coding of the first 15 interviews allowed for an initial category schema to be constructed that was a direct reflection of the respondent's thoughts and beliefs. A rigorous application of open, focused and axial coding then served to consolidate the category schema. Categories were strengthened or eliminated, and relationships between categories became clearer. Numerous memos were included to provide further explanations, description and propositions on the phenomenon in question. Forthcoming Chapters 6 and 7 will be supported with various references to the respondents and their transcribed texts. An audit trail has been incorporated, as advocated by Birks and Mills (2011). Whenever a reference to an interview passage is made, it is either done so by quoting the passage a verbatim (whilst also making reference to the relative interview code) or by describing the gist of the passage but also providing the interview number and the relevant category. This second option can easily be audited by applying MAXqda's *Text Retrieved Segments* and filtering for the interview code and the category being analyzed. For example, if an assertion is made that Firm 14 stated ‘such and such’ about a certain issue or concept, by using the *Text Retrieved Segments* function and filtering for Firm 14 and the relevant conceptual category, one can immediately view exactly what was said by the firm in relation to the concept. The MAXqda’s project file could be accessed by the auditing party through use of a freely available MAXqda reader (*MAXQDA 10 Reader* is presently available).

Criterion 4: Researcher contribution. In the logic of the constructivist philosophy, the researcher provides more than just a professional, but clinical, contribution to the study. Adequate research skills and professionalism are required for the complexities of the project to be properly handled. However, more than this, the researcher will be part of the research, and will integrate his/her own insights and knowledge with the emerging themes from the data. To do so, the researcher must already have good, relevant insights into themes that relate to the phenomenon. The more the researcher can contribute, the richer the research. Other to this, Charmaz’s (2006) concept of premature saturation will take place. Two prior dissertations on the research topic, as well as professional and academic exposure to the area of enquiry, allowed the present researcher to be better positioned to carry out the research in question.

4.9 Ethical Considerations

The participants to the research were the owner-managers of small businesses. What this really means is that they were either the owners of the business that were also acting as the senior most manager, or they were employees professionally hired to run the business. In both cases the ethical considerations are similar. With the possible exception to the first five research cases (the convenience sample), the remaining cases all involved managers who had politely accepted to be interviewed, and who were ready to dedicate some of their hard pressed work time. They would be participating in the research as a gesture of goodwill towards the researcher. In all cases the interviewees gave consent to being interviewed in line with the ‘Letter of Request’ outlined in Appendix 5, and sent to them when making contact. A copy of this letter was also handed to the interviewee at the start of the interview, and conditions of anonymity were carefully explained. The purpose of the research and the interviewee's role within the research was explained. Ethical considerations do not stop there however, and have deeper ramifications.

Two ethical issues stand out that are particular to small firm strategic research and to the interaction between the owner-manager and the firm. The first issue regards the personal role, beliefs and values of the owner-manager, as these would emerge in the interview. The second issue regards the competitiveness of the business, as the research would demonstrate how each firm was building and using core competencies to build competitive advantage. In an island as small as Malta, exposing this personal and competitive information could negatively impact upon both the individual and the business in question. A key principle of research ethics is that the study does not harm the participants in any way (Flick 2006 p. 45), in this case, "participants" meaning both the individual and the organization. In order to ensure that participants (as well as their organizations) did not suffer any negative effects from the research, the *Social Research Association* (UK) research ethics guidelines (2003) were applied throughout. Particularly, the following four ethical considerations were taken throughout.

Consideration 1: Obtaining informed consent and avoiding undue intrusion.

Consent of the participants had to be freely given, and based as far as possible on an understanding of the objectives and implications of the research. The approach adopted for all participants was to introduce the research through an email which explained the research and allowed uninterested parties to decline participation. Following this correspondence a telephone call would be made to the participant, once again explaining the research objectives and mechanisms, and seeking informed consent. Some 20% of the respondents were found willing to participate, and an appointment made at a time and location of their preference. Prior to the start of the interview the participant would again be given a copy of the Introductory Letter (Appendix 5), and an explanation of the research implications. Particularly, the participant would be asked if she accepted to be taped, in line with the research methodology adopted. A refusal by the participant at any stage would result in a graceful termination of the interview, and an exclusion of the participant from the research.

Consideration 2: Protecting the interests of subjects.

The researcher is obliged to protect the participant against potentially harmful effects of participating. This relates to the two points mentioned earlier on; avoiding disclosure of the patterns of behaviour, both of the individual and of the organization. For this to be done the research had to go through a 'generalization' process. All descriptions relating to individual or organizational behaviours were generalized by relating the cases to a generalized typology. In other words, the detailed strategic behaviours of the individual firms were generalized into one parsimonious typology of generic strategic behaviours. The individual nuances of behaviour were thus camouflaged in this manner. The concept of equifinality applied in that all classifications in the typology could relate to positive business performance. Five trajectory-based patterns were uncovered, and each business would fall into one of these general patterns.

Consideration 3: Maintaining confidentiality of records.

Data records should be stored safely, with restricted access and securely archived. The data management strategy described previously ensured a robust management of the data gathered, together with controlled access and storage. No copies of the data were given to third parties, and data management only took place on one computer, the personal PC of the researcher. This was not accessible to third parties.

Consideration 4: Preventing disclosure of identities.

Researchers should take appropriate measures to prevent their data from being published or otherwise released in a form that would allow the subject's identity to be disclosed or inferred. In line with Consideration 2, numbers were assigned to names (Creswell 1998 p. 132) as a means of guaranteeing anonymity. In other words, Firm XYZ, say, was renamed *Firm 2*, and all references were made to *Firm 2* and not Firm XYZ. Whilst the research was based on the study and evaluation of the strategic patterns of behaviour of the firms, no detailed descriptions of the individual firms were provided that could be used to identify the firms in question. Financial data were camouflaged by standardizing each firm's values, resulting in NAV values ranging around the figure of 1. The objective of all this was to reach an acceptable balance between the descriptive wealth of the research with the secure anonymity of the research participants.

Chapter 5: A Framework for Small Firm Strategic Behaviour

5.1 Overview and Objectives of Chapter

This chapter establishes a variable set that is the basis for a forthcoming study on the trajectories of small firm strategic behaviour. Three objectives have been set for this important stage that establishes a framework for small firm strategic behaviour, and effectively sets the groundwork for subsequent typological studies (the subject of forthcoming Chapters 6 and 7). The Chapter aims to demonstrate that the selection and configuration of a framework of strategy variables is a vital first step in the mapping out of small business strategy. The three objectives of this chapter are outlined below:

The first objective to the Chapter is to establish a framework of variables that can be adopted in subsequent typological studies on small firm strategic behaviour. The Chapter shall demonstrate that the identification and even the configuration of the variables that underlie a strategy typology are of paramount importance. A number of issues shall be addressed, two of which stand out. Firstly, there is the task of choosing a variable set, usually based on a deductive or inductive approach. The deductive approach is by far the most commonly found within the literature, where prior theory is used to pre-define a variable set that is then applied to a particular audience. Arguably, little truly innovative learning is gained from this approach. A purely inductive approach allows for emergence of the variables from the empirical research, but suffers the problem of limited generalizability. The following text shall instead demonstrate an abductive approach, applying the constructivist grounded theory method of enquiry described in Chapter 4. The logic of this abductive approach shall be further explained. The second issue regards the structuring of the variables that emerged from the research. The Strauss and Corbin (1998) *Conditional and Consequential Matrix* has been adopted for this aim. The Matrix is little more than an outline framework identifying contextual, consequential and process-based parameters. It is defined by Kelle (2005) to be a heuristic framework of low empirical content, this lack of empirical content giving the framework a flexibility that allows a variety of empirical phenomena to be portrayed though it. It does, however, bias the researcher into focusing upon the areas of context-actions-consequences and coding data around them. This focus is a result of the micro-sociological theory underlying the Matrix.

The second chapter objective is to populate the variable framework with a conceptually dense description of the framework components, their interaction and their strategic significance. The following text (with detailed descriptions provided in Appendix 8) shall describe a variable set consisting of 3 categories, 14 sub-categories, and 47 distinct properties. Owner-managers provided detailed descriptions of the competitive situations they were competing in, actions being taken, conditions being faced, and so on. Categories and properties were populated with conceptually rich information, and memoing allowed for additional description of category/property meaning and also of their interactions. Constant comparison allowed for the identification of the categories/properties, their verification, and their description.

The third chapter objective is to briefly explain how two particular typological exercises shall follow from the variable framework that is the subject of this chapter. Examples shall be given of how, within the literature, existing strategy typologies have been built on variable frameworks of different designs and configurations. Objectives for these typologies were congruent with the thought behind the variable selection that pre-empted the typology construction. These serve as an example of how typological studies invariably follow a process of variable selection and application. It is no less so in this research project. This is no different to the advice given by Hambrick (1984 p. 40) that "*taxonomists have a responsibility to theoretically ground their efforts through the choice of the variables*". Following the variable selection, interaction and description that is the focus of this chapter, two subsequent chapters follow. Chapter 6 shall focus on devising a cross-sectional typology of strategic "states" for small firm behaviour, from the framework outlined in this chapter. This provides a life cycle of important stages that small firms can transcend. Chapter 7 shall go one step further and map the longitudinal patterns of behaviour that were described by participants, to develop a trajectory-based typology that utilizes the life cycle states compiled in Chapter 6.

5.2 The Method of Abduction as Applied to the Research

Recalling the methodological approach adopted in this research will help clarify the induction-deduction debate that is central to this chapter. In the Methodology Chapter (Chapter 4), arguments were placed in favour of applying a constructivist approach to the grounded theory method, thus moving somewhat away from its earlier positivist roots. In the constructivist approach the researcher uses prior knowledge to put initial questions to the research and conceptual hypothesis to be tested. Prior learning is used to generate intelligent questions and prompts that can then be put to the research and gear it towards higher conceptual levels. Theoretical sensitivity is allowed for, with the researcher being located within the research with an interpretive frame of mind. The researcher acts and reacts with the data, enhancing its depth whilst avoiding undue biases. If Glaser (1998) deems his strategy of enquiry to be inductive, and Strauss and Corbin (1998) deem theirs to be hypothetico-deductive, Charmaz (2006) and Kelle (2005) define their constructivist philosophy to utilize an 'abductive' approach. It is this abductive strategy of enquiry that has been applied. Reichertz (2010) and Kelle (2005), key authors on the use of abductive philosophy within grounded theory, relate the concept to the early works of the pragmatist philosopher Charles Sanders Peirce. These authors argue that abduction inferences must lead to a satisfactory explanation of the observed phenomenon, but must also be related to the previous knowledge of the researcher. New insights into the phenomenon are a combination of what the researcher already knew, albeit in sometimes entirely new and unexpected combinations.

The process of abduction is thus a process of modifying and combining various elements of previous knowledge into new and insightful configurations, guided and enhanced by the empirical data. The final picture is a new theory, a new understanding of the phenomenon, but one that has been created through a constructivist, abductive strategy of enquiry. Kelle (2005) argues that the abductive approach is far less of a novelty than it appears, as scientific discovery has always required the integration of previous knowledge with new empirical observations. The process of variable construction that took place is an example of the abduction approach. Researcher influence is evident in the identification of variables, such as the engineering stance, the resource-based stance and the organizational life cycle construct. Prior researcher knowledge and understanding has contributed to most, if not all, of the variables that resulted in the Framework. However, the meaning, configuration, interaction and depth has been guided, conditioned and controlled by the empirical data and the constructivist grounded theory method of enquiry that was adopted. On the application of a constructivist approach towards strategy research, Mir and Watson (2001) apply an interesting 'flash-light in the dark' metaphor. Flashing the light in a dark room will illuminate parts of the room whilst throwing other parts into the shadows. Knowledge of what to look for, and where to look, will provide a picture that is more complete. Knowledgeable reactions to what is being seen will result in more accurate, and more beneficial, use of the flash-light as a complete picture is gradually being built.

5.3 Variable Formulation Relating to a Typological Approach

Strategizing in the small firm is far from the rational, cooperative and structured process to be found in large firms, where planning, communicating and operationalizing a business-level strategy may take on a paramount importance. "*Small organizations tend to have inexplicit, intuitively derived strategies that reside mainly in the mind of the CEO. Time horizons may be very short as executives of small, simple firms react in unplanned and piecemeal fashion to conditions*" (Miller and Toulouse 1986). A further issue is the dynamic nature of small business strategic behaviour. Organizational momentum in larger firms has been shown to move in the same strategic direction, with the firms more often consolidating and enhancing existing strategies than altering into a different direction (Christensen 1997; Miller and Friesen 1980). The investment in time, people, money and other resources required to develop the distinctive competencies, technologies, structures and management processes needed to pursue a chosen strategy is large (Dess and Davis 1984; Snow and Hambrick 1980). This is not so for small businesses however, and studies on small firm strategic momentum (e.g. Wiklund 1999) have shown that strategy adapts and alters as time unfolds. A static picture of small business strategy is insufficient, as far more than a snap-shot will be required to understand the true dynamic nature of small firm strategic behaviour.

As argued in Chapter 3 (the second part of the literature review), small business strategy can be understood from a typological approach that looks at common groupings of small firm strategic behaviour, and attempts to understand the rationale, characteristics and implications of these groupings. This typological approach places two challenges on the small business strategy researcher; the task of devising a framework, or variable set, that can be used as a basis for mapping out small firm strategic behaviour, and the ability of this framework to cater for the dynamic nature of small business strategy. As argued by Thomas and Venkatraman (1988 p. 552); *"the strategy taxonomist faces an enormous challenge just in deciding exactly what should be classified (i.e. which dimensions best operationalize the strategy construct). Our position is that the development of strategic groups using a narrow conceptualization of strategy is unlikely to capture the complexity of the strategy construct, thus limiting the usefulness of strategic groups for both descriptive and predictive purposes*." The literature has repeatedly shown that this variable identification and structuring will be strongly influenced by the objectives of the researcher, as well as the research settings and methodology adopted. For example, Porter's (1980) generic strategies were mapped out on two axis; product characteristics (low cost versus differentiation) and market share. Porter's objective was to correlate strategic advantage (product characteristics) against a strategic target (market share) in a bid to map out the various sustainable positions that a firm could adopt within an industry. Miles and Snow (1978) adopt a totally different approach and set of dimensions, looking more within the firm as it acts and reacts to industry and environment conditions. Their typology of Prospectors, Analyzers, Reactors and Defenders is based upon what they call the 'adaptive cycle', as firms act and react strategically to the environment in accordance to entrepreneurial, engineering and administrative criteria. One notices a completely different approach towards the dimensions of interest between the above two typologies, with Porter utilizing two variables and a matrix configuration, and Miles and Snow applying three variables and a typology resulting from four possible combinations of the variables. Whilst the objectives for typological studies are varied, the method utilized is invariably the same, and consists of the following two conceptual levels:

Level I: Variable Identification.

The literature review has shown that variable selection underlying a typological study is often fraught with errors and inconsistencies. A common error is the adoption of existing variable sets that have simply been created for another purpose. Examples abound here such as the use of the Miles and Snow (1978) adaptive cycle dimensions to map out small business strategies (e.g. Aragón-Sánchez and Sánchez-Marín 2005; Gimenez 2000; O'Regan and Ghobadian 2006), where an underlying assumption of the adaptive cycle is organizational momentum, an aspect that Mintzberg and Waters (1985 p. 261) have argued strongly against in the case of small firms. A second error is in the methodological approach commonly taken by researchers to extract variables from the research data. Quantitative techniques, such as factor analysis followed by cluster analysis, are often used to 'induce' the variables from the data. Over two-thirds of strategic group studies use this approach (Ketchen and Shook 1996) that has an added disadvantage (to that of using pre-defined variables), in that clusters or groupings will inevitably be created regardless of the true existence of any structure in the data (Hair et al. 1998). The challenge in the present research is thus to induce a variable set from the data (or more accurately, interplay between researcher knowledge and the data) that is rich in content and concept, that relates to the particularities of small firm strategic behaviour, and that can be generalized to different settings. Only then can typological work commence.

Level 2: Variable Configuration.

The various examples of existing strategic typologies have demonstrated that the configuration of the strategy variables is also of importance. Most taxonomic studies applied through a quantitative methodology depict strategic groups by using a 'strategic group mapping' approach. Porter (1980 p. 129) was the first to promote this concept, stating that "*a strategic group is the group of firms in an industry following the same or a similar strategy along the strategy dimensions*". Porter provided a number of sample maps to demonstrate strategic groups mapped out against various strategic variables placed on both axes to the map. Many of the previously mentioned typologies apply this more direct variable configuration approach that utilizes two variables. However, the more conceptually dense typologies often have more than two variables, and cannot readily be mapped out onto a two-dimensional matrix. Examples of these are Chandler's typology, Miles and Snow's typology, and Mintzberg and Water's (1985) typology that were developed through more fine grained research methods. Often the explanation of these typologies is descriptive, void of mapping due to the difficulty in visualizing the complex interaction of variables that underlie the typology. Another particular problem identified by various authors (e.g. Boyne and Walker 2004; Jemison 1981; Ketchen Thomas and McDaniel 1996) is the inability of many studies to incorporate variables on both strategy content and strategy process into the picture. Thus the variable configuration theme takes on two particular challenges; establishing a pattern of interaction between the variables, and incorporating both content and process as a means of truly understanding the phenomenon of small firm strategic behaviour.

5.4 Delineating the Categories, Properties and Dimensions of the Framework

Grounded theory research on the 67 small businesses in Malta provided a model, or framework, for small firm strategic behaviour that consisted of three main categories and fourteen sub-categories. These categories, sub-categories, and their hypothesised relationships are demonstrated in Figure 5.1 (and in more detail in Figure 5.2), with two sub-categories given particular prominence. Each sub-category is in fact multi-dimensional in nature, and the grounded research provided a number of properties and relating dimensions for each sub-category. Strauss and Corbin's (1998) definition of categories, properties and dimensions is being adopted to avoid confusion of terms, where "*properties are the general or specific characteristics or attributes of a category, dimensions represent the location of a property along a continuum or range*" (Strauss and Corbin 1998 p. 117). This is similar to Charmaz's (2006) and Locke's (2001) use of analytic properties to define and delimit the boundaries and content of a category. Strauss and Corbin (1998 p. 101) define a sub-category as a distinct concept that pertains to a category, giving it further clarification and specification.

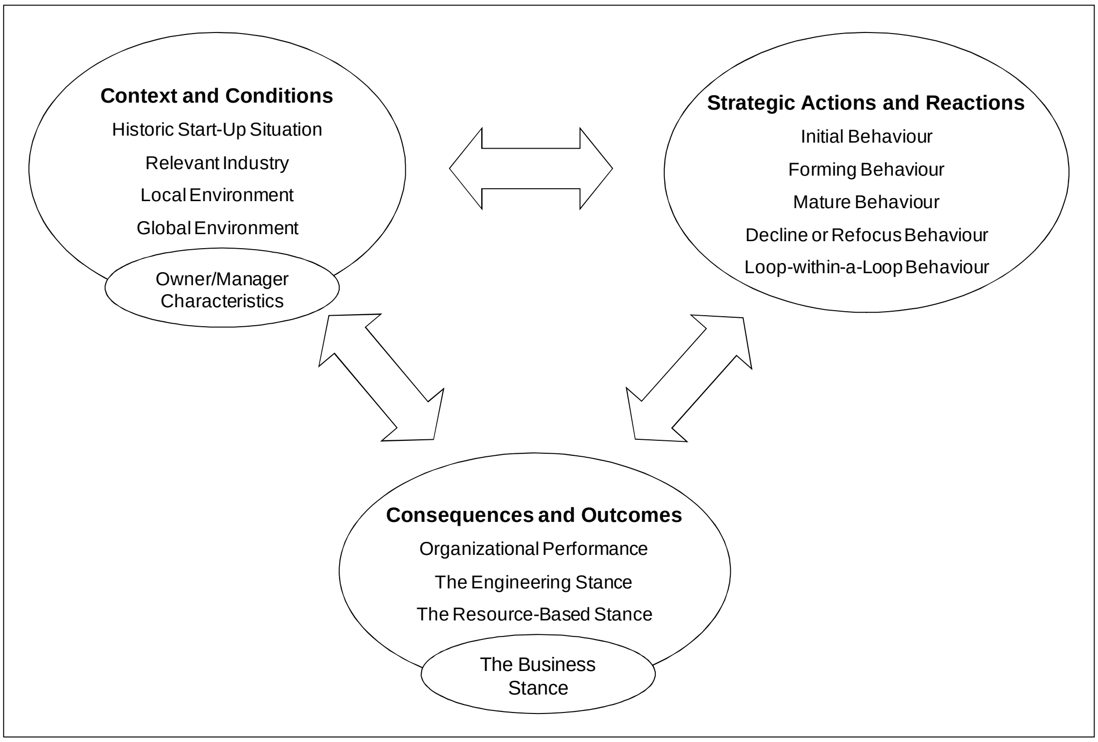


Figure 5.1: A Framework for Small Firm Strategic Orientation

An issue of contention, and one of subjectivity, regards just where a category ends and a property begins. In other words is a key theme a conceptual category in its own right, or is it the property to a higher level category? Glaser (1998 p. 136) wisely observes this potential dilemma, and posits that "*some categories can be considered properties of other categories. It is a conceptual levels phenomenon that relates to how the analyst is formulating the integration of the theory. Or, put another way, conceptual levels are architected by the integration of the theory as it emerges through coding, memoing and sorting*". In other words the data, and the rendering of the data, should ultimately guide the category-property-dimension hierarchy. Corbin and Strauss (2008 p. 130) realize the researcher's possible confusion with the terms and go as far as giving clear and simple examples, such as ‘pain experience’ being a conceptual category, with ‘intensity’, ‘duration’ and ‘location’ being respective properties. The corresponding dimensions for ‘intensity’ would possibly be from very low to very high, or very focused to very generic.

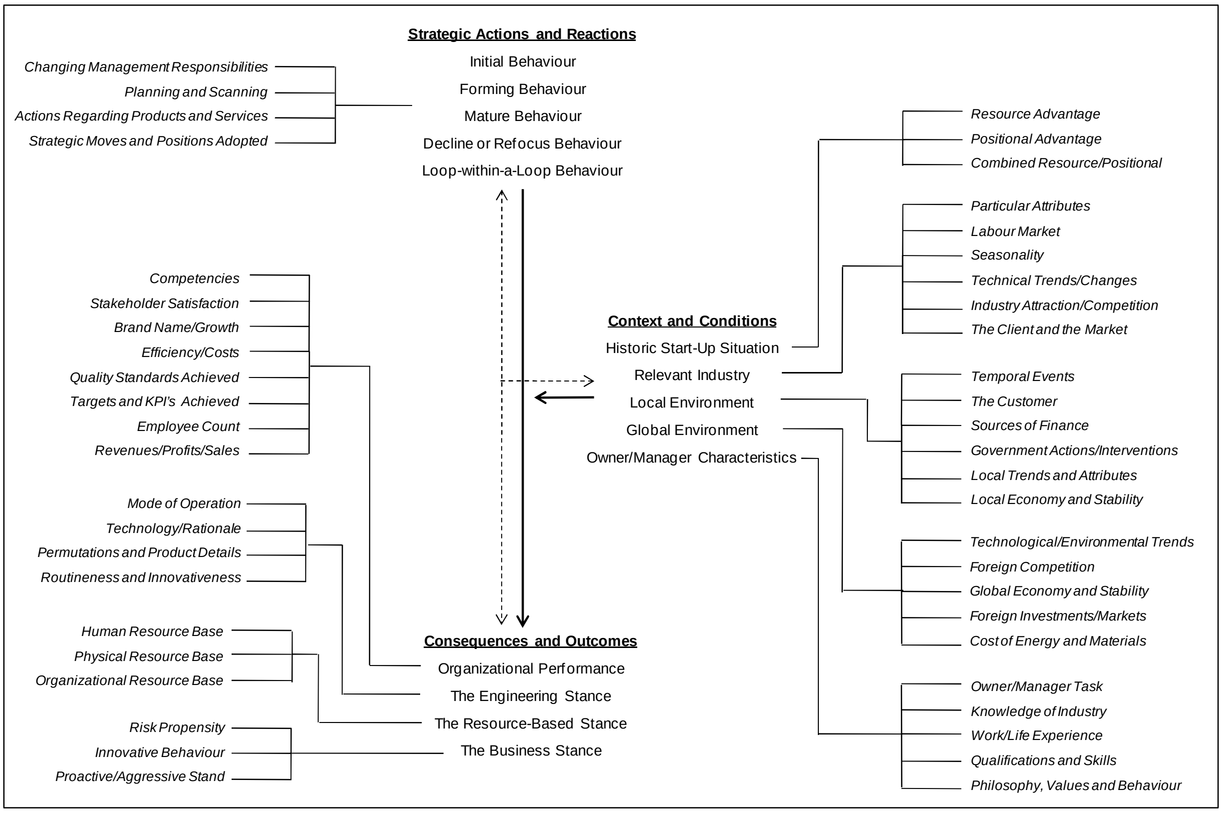


Figure 5.2: The Framework’s Categories, Sub-categories and Properties

Figure 5.1 illustrates the resulting framework for small firm strategic behaviour, consisting of three components of *context*, *actions* and *consequences* that are exemplified in the Strauss and Corbin (1998) *Conditional and Consequential Matrix*. Appendix 8 details the descriptions of the various categories and properties, as provided by the respondents. Figure 5.2 expands upon Figure 5.1 to provide a more detailed, variable-based view of the Framework (the word ‘*dimension*’ may have been more appropriate to that of ‘*variable*’, but has a different connotation in grounded theory). Whilst Figure 5.1 simplifies the complex interaction between context and process, Strauss and Corbin (1998 p. 183) acknowledge that “*the relationship between conditions and consequences and subsequent actions/interactions rarely follows a linear path*”. Also, whilst advanced MAXqda tools have been used in the research (e.g. *Code Matrix Browser*, *Code Relations Browser*) a more simple frequency count tool has allowed for a tally of references to be made for each category and its properties. Depicting the number of references made to a category/property does not give conclusive information, but it does demonstrate the importance of the concept to the research subjects. For this reason, '*X*' references is repeatedly used in the descriptions shown in Appendix 8 to denote the importance of a category or its properties, as perceived by the respondents.

5.5 Integrating the Categories into a Multi-Dimensional Model and Discussion of Implications

In accordance with the chapter objectives established in Section 5.1, the discussions and descriptions provided in Appendix 8 have served to outline the categories, subcategories and properties of a framework for small business strategic behaviour. Figure 5.1 outlines the main components of this Framework, Figure 5.2 highlights the categories, sub-categories and properties of the Framework, and Figure A8.1 in Appendix 8 shows a time-based conceptualization of the same Framework. In summary, three multidimensional constructs of context, actions and consequences have been discussed. The logic of the Framework is that the consequences (arguably a dependent construct) are the result of strategic actions (an independent process-based construct) taken according to the particular context (an independent content-based construct). The issue of inter-relationships, covariance and causality within the model must be given some attention. It is expected that reverse causality will exist between the constructs. For example, structures deployed will be a result of previous actions and context, but will subsequently influence future actions. As another example, actions and consequences may lead to a change in owner-manager, thus influencing the context. The complexity of the model, evident in the wide range of possible permutations, makes it more important than ever for one to adopt a typological approach towards strategic behaviour. Any attempt to deploy the Framework to understand strategy from a contingency perspective would result in innumerable combinations and permutations of the variables in play, making the approach unrealizable. A configurational approach allows for the classification of strategic behaviour into the most commonly observable and conceptually dense patterns of behaviour that are based on the strategy variables adopted. This has been empirically shown to provide a stronger relationship to performance than a contingency approach (Wiklund and Shepherd 2005). It is this issue that will be addressed next in the forthcoming thesis chapters.

The issue of structure versus process also needs to be given special attention. Strauss and Corbin (1998 p. 168) argue that "*by relating process to structure, one is, in fact,* *connecting categories*". However, when re-visiting the Framework in Figure 5.1 all that is apparent is a configuration of categories, and a basic inter-relationship between these. These categories, sub-categories and properties form the final coding hierarchy adopted in MAXqda, an example of which is shown in Figure 4.4 of the Methodology Chapter and in Appendix 6. That means that as more and more transcripts were coded, the respective codes were matched to the conceptual categories/properties in a manner not unlike placing pieces of information in corresponding drawers that are reaching saturation. The drawer is the category or property, the name of the drawer is the name given to that category/property (for example, the *engineering stance*). This practical application of grounded theory has an important advantage, and for this to be understood reference is made to Figure A8.1 in Appendix 8.

Owner-managers would describe *context-actions-outcome* situations, providing a wealth of information on the various categories/dimensions and their relationships. However, examples and details given would regard the present competitiveness of the firm, past competitive scenarios, and even future potential situations. A possible way to depict this is to imagine the arrow and spiral in Figure A8.1 to be un-shaded, with shading only taking place when the owner-manager would have provided information of context, actions, and outcomes for a particular segment of the sketch. In other words, context and consequences would be described for different life cycle stages of the firm, from past to present, and sometimes even into the projected. No interview was complete enough to have a fully shaded sketch, but most interviews would provide enough information to picture a trajectory of the firm. This is the reason why Hanks et al. (1993 p. 24) argue that "*there is the need for rich qualitative studies which capture the nuances of change within individual organizations*". The following Figure 5.3 illustrates what would be seen if a cross-section of the sketch were taken, say at the present-day stage of a firm's existence. Evident would be the *context-actions-consequences* pertaining to this point in time. Cross sections could be taken at earlier stages, showing the firm's strategic situations at other particular stages. The amount of information is somewhat constrained by the limitations placed when deciding to batch the *Strategic Actions and Interactions* category into a limited number of stages; those of birth, growth, maturity and decline. The implications of this wealth of information, made available through the grounded theory approach of mapping process against structure, are twofold. Firstly, an analysis of the present-day *context-actions-consequences* of the 67 firms researched can be carried out.

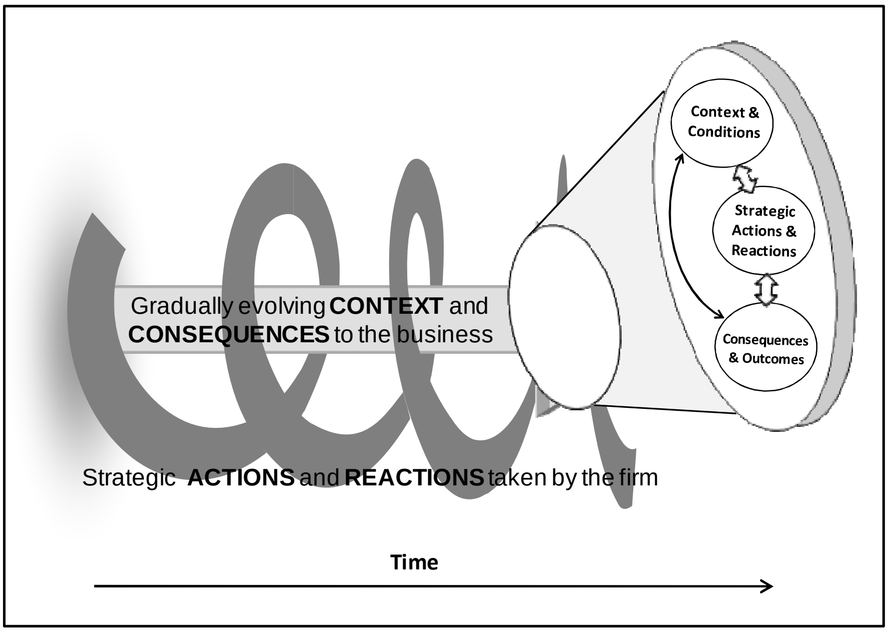


Figure 5.3: A Cross-Section of the Trajectory of Strategic Behaviour

This would provide a picture of the present strategic situation and strategic orientation of the firms (these shall be called "*strategic states*" in future chapters), based on the categories/dimensions of the Framework. Obviously this present-day posture would be an outcome of past context and past actions, but this would not detract from the wealth of the picture. As argued earlier, a configurational approach will provide more descriptive power and would be more realistically applicable than a contingency approach. A typology of present-day strategic states would emerge. The variables underlying the typology have been described in detail in this Chapter (supported by Appendix 8), and are the categories, sub-categories and properties of the Framework. Firms would fit into a limited number of identifiable patterns that would explain the context, actions and consequences particular to the state that the firm identifies with. This typological approach is the subject of the following Chapter 6.

The second implication of having process and structure-based information on the firm's strategic behaviour is that a second form of behavioural mapping exercise can be carried out. This mapping is based on an important, but realistic assumption; that the typology of states described above can also be used to map out a trajectory of the strategic behaviour of a small firm. In the typological exercise described above (that is the subject of the following chapter) a number of states will thus emerge, pictures of the various patterns of strategic behaviour of the different firms. These strategic states should encompass all the possible behavioural patterns that a small firm can adopt. If this is the case, then one can look beyond (or more rather *behind*) a firm's present state and see what state or states the firm had adopted in the past, and even how and why it moved between states. Thus, if the states are a true reflection of all possible variants of behaviour, then firms should be seen to move from one state to another, or at least remain in the same state over time. More simply put, a trajectory of behaviour can be mapped by seeing how a firm changes states with time, moving from one form of strategic posture to another. As argued by Hambrick (1984), pathways and trajectories can be classified into a typology just as readily as states. A typology of trajectories can thus be created, using the set of states described above as a basis, and this will have, in turn, used the Framework as a basis. The small firm trajectory-based typology is the subject of Chapter 7 of this thesis. A simile may help describe the interaction of these three themes. The present chapter can be likened to the establishing of variables that describe the shape of stepping stones used to cross a stream. Chapter 6 shall outline a typology of stepping stones of different configurations, with firms invariably fitting into one configuration or another (these are the strategic states). Chapter 7 shall map out a set of common patterns by which the stepping stones are traversed. This shall form a trajectory-based typology exemplifying the dynamic nature of small firm strategic behaviour. Arguments shall be made in favour of understanding small business performance from this trajectory-based perspective.

Chapter 6: Strategic States and the Life Cycle Concept

6.1 Overview and Objectives of Chapter

The previous Chapter 5 has described a framework of variables that have been compiled from grounded theory research on 67 small businesses. The Framework is specific, that is, specific to the small business competitive scenario. It allows for the mapping out of both structure and process, an issue of cardinal importance for the small firm due to its dynamic nature. From the process perspective, actions and reactions have been mapped out for the present, the past and even future planned actions. From the context perspective, variables have been included in the framework that are of particular significance to the small firm, such as the historic start-up situation and the owner-manager characteristics. From the consequential perspective, the adoption of stances has been used to allow for a picture to be built regarding the visible resulting behaviour of the small firm. Three stances, together with organizational performance, were established here. These three stances are essentially three adopted forms of behaviour, looking at the firm's visible behaviour from three viewpoints. If the phenomenon is firm strategic behaviour, then the three stances are looking at strategic behaviour from three angles, that is, from three perspectives. A description of the phenomenon will be complete when its context, the actions and behaviours acting within that context, and the outcomes to these actions, are integrated into one description. This is the objective of the forthcoming typological exercise. The logic is simple; description, using a typology of strategic states, will provide a better explanation of Framework variable actions and interactions, than could a contingency approach. This exercise in establishing a number of "strategic states" is not complete in itself, and the following chapter (Chapter 7) shall demonstrate that a study of the movements within and between states will provide for additional learning into the true dynamic behaviour of small firms. The two objectives for this present chapter are thus as follows:

1) To establish the characteristics for a classification scheme that provides a typology of strategic states for the small business, and that allows for an in-depth analysis of the interplay between the variables set out in the earlier Framework.
2) To build a taxonomy that distributes the 67 firms within the various cells of this classification scheme. To analyze the implications of this taxonomy.

6. 2 Analytic Techniques Utilized

The main approach adopted in the forthcoming typological exercise was aimed at building a classification scheme based upon a set of common characteristics. The following text shall be focused on analyzing and describing the characteristics associated with the four different behaviours established in the previous chapter. These were the *small business orientation*, the *functional efficiency orientation*, the *related diversification orientation*, and the *unrelated diversification orientation* (see Appendix 8.3.4). In other words, for firms adopting a *small business orientation*, what engineering stance would be adopted? What form of resource base would commonly be used? What actions and what conditions would be most dominant? And so on.

The analytic instrument utilized in this stage was MAXqda2007 and two of its main tools. The first MAXqda tool is the *Code Matrix Browser*, that has allowed for an important thematic mapping exercise to be carried out. Figure 6.1 (and subsequent figures) demonstrates this mapping exercise by mapping out *active texts* against *active codes*. On the Y-axis, all the codes pertaining to the Framework (detailed in Chapter 5) would have been activated, whilst on the X-axis the texts of chosen business cases have been activated. By selecting these particular businesses and cross-referencing with the Framework category schema, the browser will highlight areas of code concentrations. These have been highlighted with red ellipses that pinpoint the main areas of respondent focus. For example, six areas have been highlighted in Figures 6.1 and 6.2 where the thirteen respondents had placed a particular focus towards certain conceptual categories (and their properties). The browser indicates how many times a code has been given by a particular respondent, with the smallest blue boxes indicating one code, and the largest red box indicating six codes (i.e. a high coding intensity).

The second tool that was utilized extensively was that of *Text Retrieved Segments*. This function can be described as a more detailed version of the *Code Matrix Browser*, and was used as a lens to highlight and view code segments for any text and categories (or properties) that would be activated. This is an in-depth form of cross-tabulation that allows for the isolation and analysis of any or all text segments that relate to the combination of codes and of business cases chosen. All the patterns shown in the *Code Matrix Browser* could be studied in detail in this way, either separately for one single coded segment for a chosen text – code activation, or collectively for a number of texts and codes.

6.3 Firms in a *Small Business Orientation* State

Thirteen firms were identified (Chapter 5, detailed in Appendix 8.3.4) as having a *small business orientation*. What this essentially means is that these 13 firms all demonstrated low levels of innovative and proactive behaviour and were observed to be acting largely in a risk-averse manner. Figures 6.1 and 6.2, screen shots from the MAXqda *Code Matrix Browser*, demonstrate 6 areas of high coding intensity (highlighted with red ellipses) where the 13 respondents collectively placed a repetitive focus on particular conceptual categories and their properties.

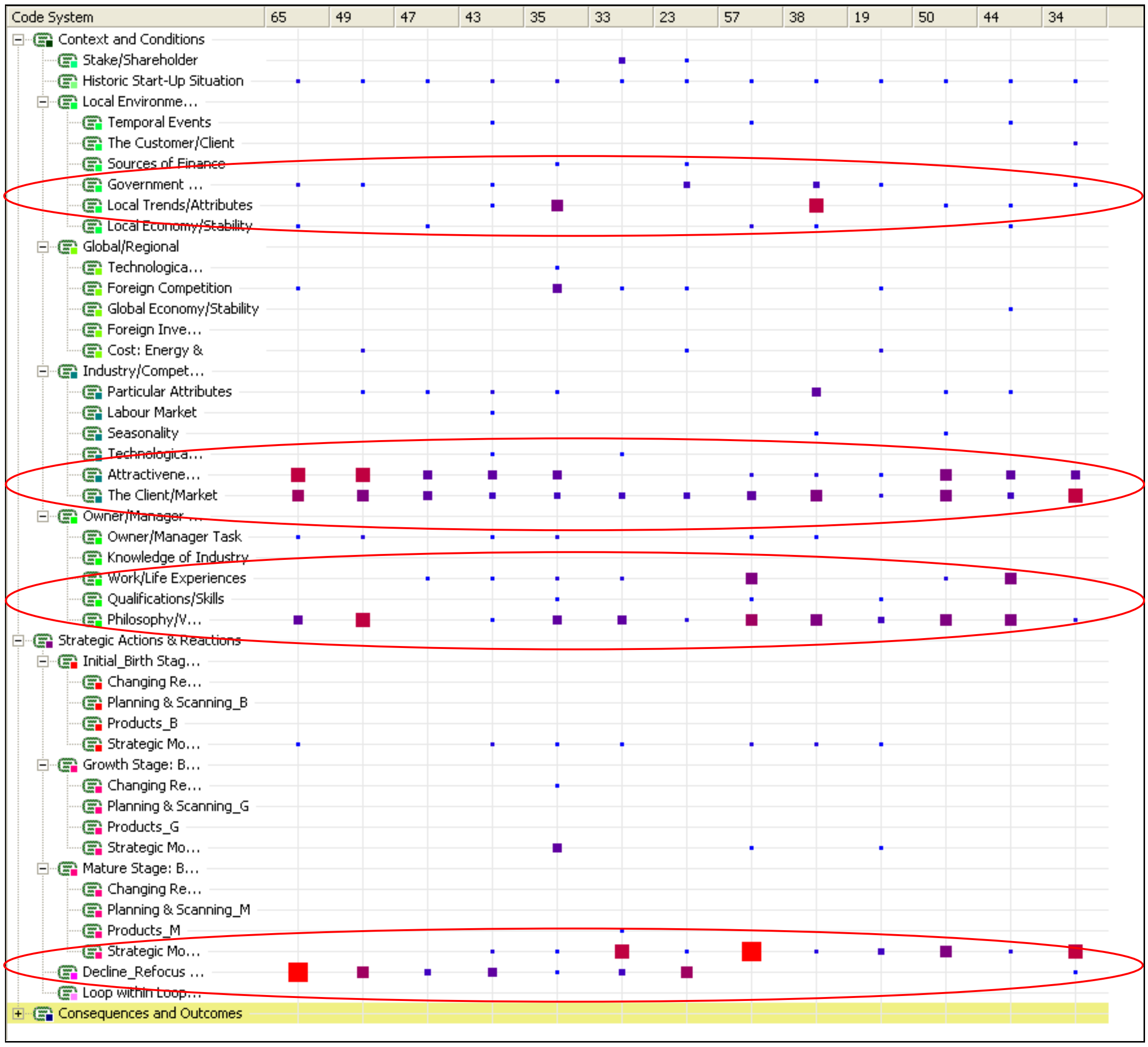


Figure 6.1: A Code Matrix Browser Screen for Firms in a *Small Business Orientation*

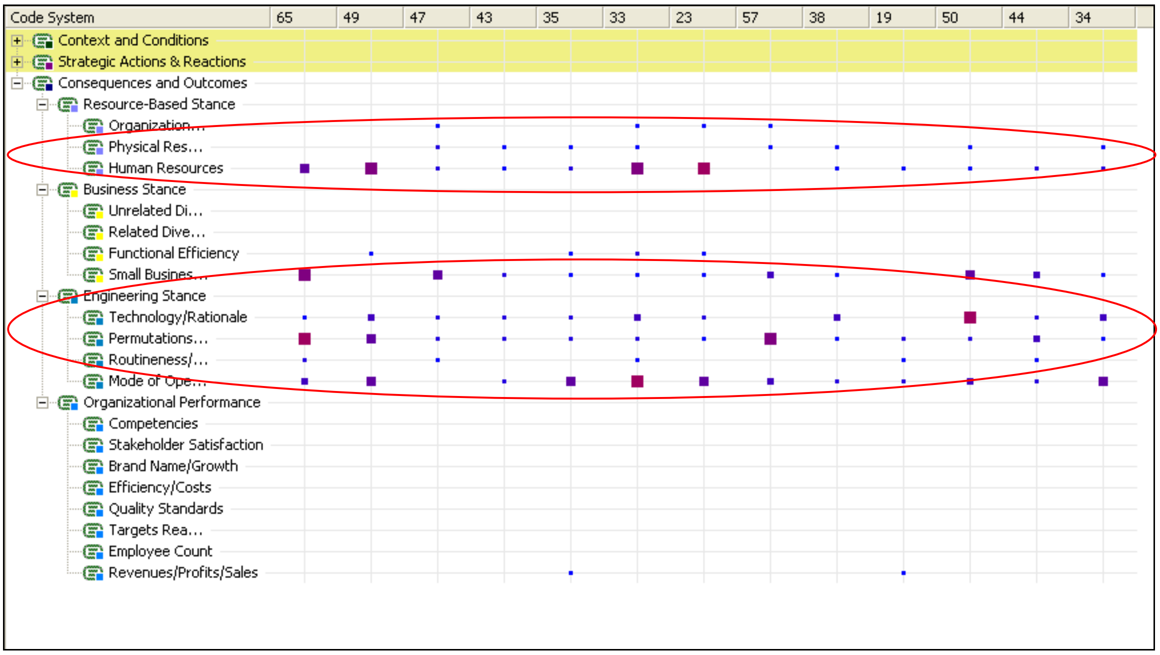


Figure 6.2: A Second Code Matrix Browser Screen for Firms in a *Small Business Orientation*

The yellow highlighted rows in each screen shot show which category has been minimized, and thus excluded from analysis for that particular screen shot. The 13 businesses were a mixed variety of manufacturing, service and retail firms. Two separate stages shall be adopted when analyzing businesses of this orientation, with a similar approach to be taken for the forthcoming three other business orientations. The first stage shall look at the causes and conditions relating to the business stance adopted by the 13 firms. In other words what context, and indeed what strategic actions induced the firms to adopt a *small business orientation*? The second stage shall compare the various stances and outcomes for these 13 firms. The question here is what particular engineering and resource-based stances will these particular firms adopt, and how will their behaviours relate to performance? The six areas highlighted in the *Code Matrix Browser* screen shots shown above (the red ellipses) will serve to focus this analysis, which would otherwise be lost in the excessive detail on all the categories/properties of the Framework.

The first ellipse in Figure 6.1 shows a focus by the firms in question on environment and competitive issues outside those of the direct industry environment. From a global perspective foreign competition was seen to be an issue. From a local perspective governmental interventions (or lack of), local trends and the local economy were the target of focus. (*Methodology Note: These properties pertaining to the Context/Conditions category were highlighted by the Text Retrieved Segments function within MAXqda,* *together with the 13 business cases in question. This cross-tabulation served to provide all the corresponding text segments for the forthcoming detailed analysis. This method shall be repeated throughout the chapter*). A trend was immediately apparent, although conditions varied considerably between the firms. Increasingly adverse competitive conditions were often being felt, little governmental support was to be found, foreign competitiveness was on the increase, industry supply was exceeding demand, and so on. The economic downturn was being felt strongly by these *small business orientation* (to be called SBO from now on) firms. One advisory firm (Firm 57) described how customer queries had shrunk by some 80% over recent periods as the industry became more saturated. Another firm (Firm 38) operating in the real estate business described how an over-supply of low quality property had practically killed the market. A carpentry business (Firm 19) detailed how a reduction of levies and ease of import of low cost - low quality furniture had impacted substantially on the competitiveness of the particular industry. Many firms complained that government focus had shifted away from their industries and towards other, more lucrative sectors.

The second ellipse in Figure 6.1 relates to two particular industry and competitive properties; the local industry attractiveness, and the client or market. A varied range of industry factors were identified, such as ease of import, size of importers, changing industry concentration ratios, changing competitive behaviours, and so on. A company making aluminium fixtures and fittings (Firm 43) detailed how they had lost an early competitive advantage of importing and wholesaling aluminium as now some half dozen large importers had overrun the industry. A local coffee manufacturing firm (Firm 50) described how importation and retail of pre-packaged coffee was a major threat to them, and severely affected profitability. Client and market issues were also of major concern to the SBO firms, such as changing consumer trends and behaviours, as well as the economic impact on consumer spending. A shoe manufacturing firm (Firm 47) detailed how few consumers were ready nowadays to buy made-to-fit shoes, and preferred to invest in a larger range of lower cost import shoes. A company manufacturing candles (Firm 65) complained that increasingly price had become an overriding factor in consumer selection criteria. Even if the cheaper, imported candles being bought by consumers were not adequately designed for the local weather conditions (and hence burnt inefficiently), this still would not stop consumers from going for this cheaper alternatives. A mushroom grower (Firm 35) outlined how large commercial customers were developing a trend for effecting late payments, creating cash-flow problems within the industry concerned.

The third ellipse shown in Figure 6.1 refers to three properties relating to the *owner-manager characteristics* sub-category. These are work/life experiences, qualifications and skills, and the philosophy and values of the owner-manager. An interesting picture emerged here, as there was often a mismatch between the low entrepreneurial behaviour of the SBU firms and the entrepreneurial philosophy of the owner-managers. There were substantial skills and qualifications differences between the 13 SBO owner-managers, with qualifications/skills ranged widely from individuals with no academic qualifications to others with multiple degrees. In all the cases, without exception, the owner-managers were seasoned and experienced employees, well exposed and hardened to the business world. In many of the cases the owner-managers were at retirement stage and showed a certain tiredness, with little entrepreneurial behaviour. However, this was not always the case, as there were some owner-managers who demonstrated high levels of risk propensity, innovative and proactive behaviour. There seemed to be a conditional situation here, with these owner-managers either unable or unwilling to alter the conditions restricting their firms to an SBO status. One example of this was an auditor (Firm 57) who had recently gone through a bomb threat, and had temporarily shrunk the size of the firm as if trying to lie low for a while. Another example was a highly entrepreneurial and energetic senior engineer (Firm 33) who was running a German-owned company, where the owners were in retirement stage and unwilling to see any major company developments. As a result, the engineer's management philosophy had only a limited impact on the business's behaviour. Of interest is the fact that, of the 13 SBO firms, not one was a new start-up firm. One may argue that even a small start-up would be expected to demonstrate adequately high levels of entrepreneurial behaviour, making it a poor candidate for the small business orientation.

The forth ellipse shows repeated owner-manager reference to two life cycle stages; the mature stage and the decline/refocus stage. These two sub-categories relate to the 'process' category; that of *Strategic Actions and Reactions*. As argued by Strauss and Corbin (1998), understanding process should provide a better picture of what is really going on, helping to describe the particular phenomenon under scrutiny. The fact that the SBO firms were predominantly in late maturity or decline is understandable, and relates well to the mature ages of most of the owner-managers. Strategic moves described were both short-term tactical moves, as well as long-range strategic actions and reactions. Also, owner-managers described past, present, and even planned strategic moves and actions. Descriptions were rich and varied, regarding the design of products, investment decisions, actions taken towards employees, resource deployments, competitive moves, new markets/products being accessed, stocking decisions, marketing decisions being taken, and so on.

The various strategic moves being taken complemented largely the small business orientation, and provided various insights into how the owner-managers were going about enacting this particular orientation. One business that manufactured horse saddles (Firm 23) described how the firm was taking various actions to limit the negative effects of increasing labour costs and spiraling transportation costs. A real estate agent (Firm 38) outlined how they were counteracting a shrinking market by downsizing, transferring their telephone system onto Skype, and had begun outsourcing work to their accountant every three months instead of every month. An importer and retailer of confectionary goods (Firm 34) described how the company was reducing prices to match lower market prices, and was also reducing stock levels due to a lowering of local consumption levels. Strategic moves were directed towards retrenchment, towards efficiency maximization, and towards cost reduction and control. The strategic actions and reactions being taken by the 13 firms could be likened to a stream of decisions flowing in a certain direction; that of directing the firms towards the SBO orientation.

Together with the four ellipses described above, there was also a very strong focus by SBO firms on two particular *Consequences and Outcomes* sub-categories, highlighted by the ellipses in Figure 6.2. The first of these regards two properties relating to the *resource-based stance*; the physical resources and, with even more focus, the human resources of the SBO firms. Owner-managers outlined in detail the resource bundles that the firms would have subsequently acquired, and were most vivid in their interpretations of how these resources contributed to the organization's competitiveness. An interesting factor that emerged regarded the opportunity costs of the resources, particularly those of the physical resources. A number of firms described how they were now in a situation where their opportunity costs were higher than the benefits presently being accrued by the resources, meaning that the business would be better off closing down. An example of this is was an aluminium manufacturer (Firm 43) who had initially purchased the business's property on what was now the side of a busy bypass, with a present property value now far exceeding the dwindling revenues of the firm.

The final ellipse shown in Figure 6.2 relates to the *engineering stance*, and consists of a large quantity of coded segments evident by the sizeable cluster of coloured boxes. All of the *engineering stance* properties were given prominence to by the SBU owner-managers, that is; the mode of operations, the rationale, the product permutations, and the level of routinization. The descriptions provided by owner-managers towards the engineering stance were intense, sometimes even personal. The value adding activities were described in detail, complemented by the actions previously detailed when discussing the *Strategic Actions/Reactions* category. For example, a mushroom grower (Firm 35) would proudly describe how his unique knowledge of compost manufacture showed his true expertise within the industry, and elevated him to a status above that of the competition. An electronics manufacturer (Firm 33) described how the most complex stages of a particular component manufacture, that of design and calibration, were carried out by his company and not by the German mother-company. An importer and wholesaler of woods (Firm 44) gave a detailed rendition of how his expertise at selecting quality woods, and in establishing a lasting network of trustworthy suppliers, had allowed him to compete for many years within his particular industry. In many cases the face of the industry had gradually changed, consumer wants and demands had been altered, and the owner-manager's skills at a particular process were no longer enough to keep the company adequately competitive. However as described before, there were some instances where the firm appeared to be in a form of hibernation, with the owner-manager holding onto the firm for a later possible resuscitation. These were the instances where the firm's small business orientation did not match the entrepreneurial spirit of the owner-manager.

SBO firm size, measured by full-time employee count, was at a mean of just above 7. This puts the SBO firms as the smallest of the four classifications, when compared to the other three orientations. This small size is understandable, as the context, behaviours and consequences described above have all converged into one theme; a firm in contraction. This is not to say that the SBO firm is a failed model of business behaviour. In some cases the owner-managers were purposely maintaining a small, cost-efficient and focused firm size, often earning these type of firms the name "*lifestyle firms*" (McCarthy 2003 p. 157). In other cases the environmental conditions had pushed the firm in that particular direction. Performance thrusts were mainly focused towards turnover targets, owner-manager satisfaction, and even very survival itself. Owner-managers showed little interest in growth or in diversification, and appeared far more interested in perpetuating the status quo they were in. Performance implications will be discussed in more depth in the forthcoming Chapter 7.

6.4 Firms in a *Functional Efficiency Orientation* State

The Code Matrix Browser screen shots in Figures 6.3 and 6.4 show 10 highlighted areas of focus for the 34 firms that were identified as having a *functional efficiency orientation* (FEO) disposition.

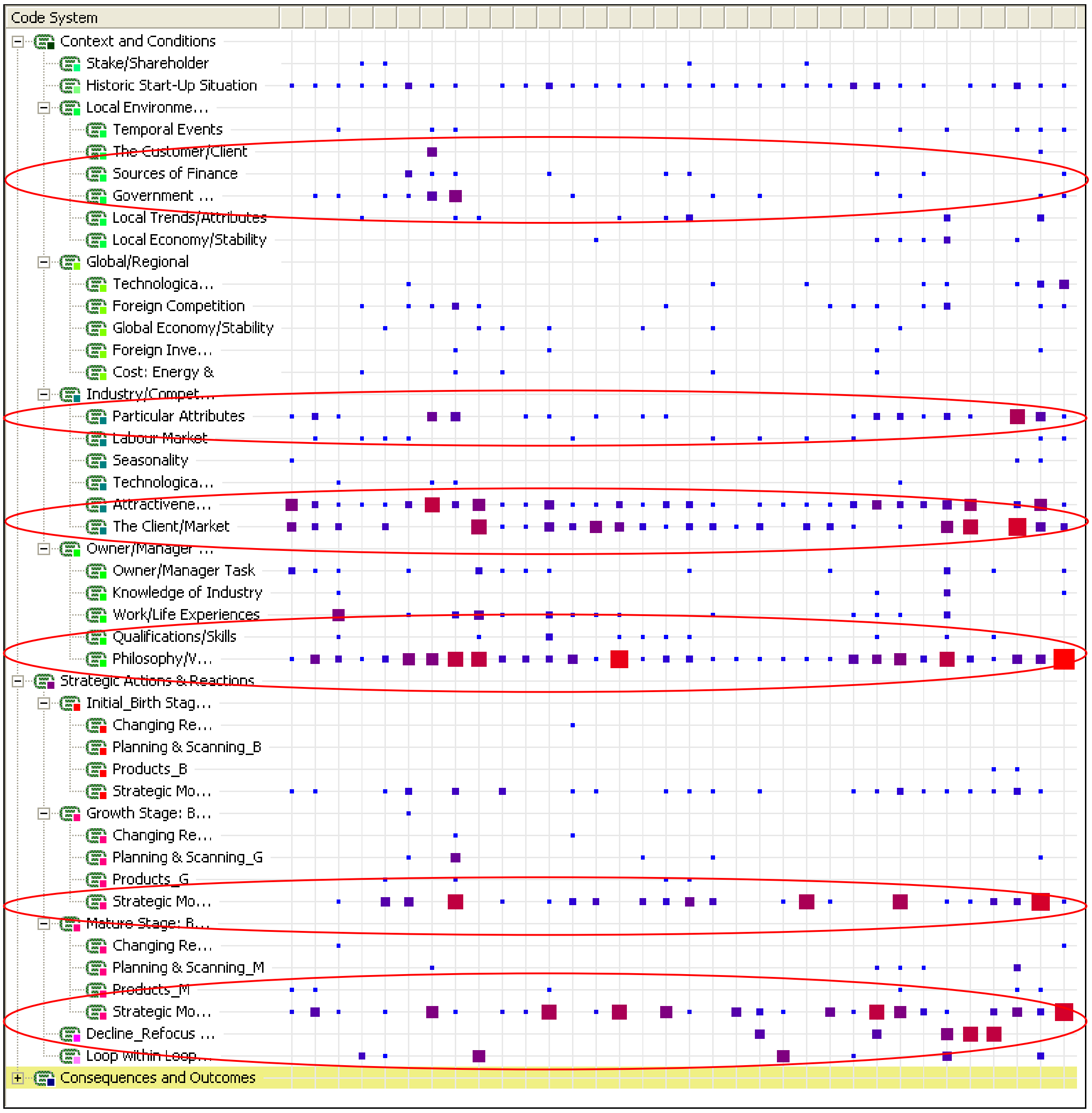


Figure 6.3: A Code Matrix Browser Screen for Firms in a *Functional Efficiency Orientation*

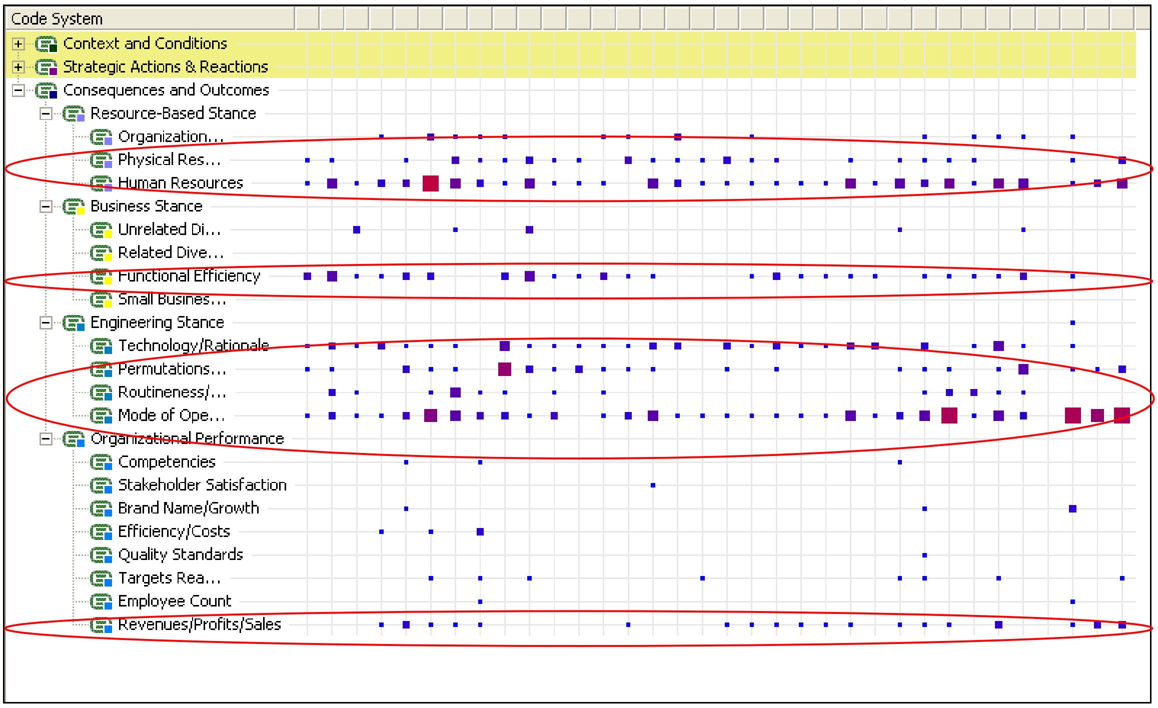


Figure 6.4: A Second Code Matrix Browser Screen for Firms in a *Functional Efficiency Orientation*

The first 6 areas of focus relate to the *Context* and *Strategic Actions* categories, whilst the last four relate to the *Consequences* category. As summarized in Chapter 5, the FEO firms appeared to demonstrate risk acceptance, innovative and proactive behaviour that was cautiously channeled into narrow and controlled areas of operation. Expanding on the 10 areas of owner-manager focus highlighted in Figures 6.3 and 6.4 will help understand and describe this orientation. As in the SBO discussion, the context and strategic actions relating to the FEO firms will first be discussed, followed by a review of the consequences and outcomes faced by the FEO firms.

The first area of owner-manager focus (first red ellipse, Figure 6.3) looks at the *local environment*, particularly three properties; sources of finance, government actions, and particular local trends. A pattern was evident here, with most references being made either directly or indirectly to what the local government was doing (or was not doing) to help the particular industries compete more effectively. Observations were made on the spiraling cost of electricity, labour market problems, local tax initiatives, access to capital financing, different forms of tax evasion, implications of new regulations, and various government-assisted incentives. The main argument placed regarded whether the owner-manager felt that he/she was being given a level playing field in which to compete.

Observations were varied due to the large quantity of FEO firms and the many different owner-manager perceptions. Anger and frustration were often shown where owner-managers felt that they were not being given the right competitive conditions to allow them to go about their focused task. Acceptance and appreciation was evident when this was not the case. An entrepreneurial accountant (Firm 37) was furious that a scheme he had invested in to tap into geo-thermal energy was halted by the local government. A laboratory firm (Firm 36) complained that the local government was allowing unqualified competitors to compete in what should be a highly regulated market. Conversely, a PC leasing company (Firm 27) positively described how government leasing contracts had buoyed up their particular business.

Owner-managers also placed a strong focus on the particular attributes faced within their industry, highlighted by the second ellipse in Figure 6.3. Local trends towards use of materials and technologies, barriers to entry in particular industries, access to raw materials, market trends, networking trends, particular standards and regulations enforced by the local government, were discussed among others. These local trends served to moderate the competitiveness of the various industries. Another area of owner-manager focus, relating to the same *relevant industry* sub-category, was that of the industry attractiveness and client/market behaviour (ellipse 3). This looks somewhat more closely within the industries in question, and at what particular competitive scenarios prevailed. Various local competitive conditions were discussed, such as industry concentration, barriers of entry, cost and overhead criteria within the industry, local geographic and weather conditions favouring or disadvantaging the industry, black market trends impacting upon profitability, and so on. Client and market trends were varied, such as payment behaviour patterns, consumer quality and cost expectations, and changing consumer trends and preferences. Owner-managers invariably knew their industries and their markets very well. Many firms demonstrated a strong loyalty to their customer base and went to great lengths to provide and even exceed consumer quality expectations. Markets were often niche markets, and FEO firms invariably preferred to have a strong hold on a contained market segment. One translation firm (Firm 62) described how their approach was to provide a well-priced, top quality service and combine this with public relations activities to give a product that was somewhat differentiated to that of international competitors. A ship servicing company (Firm 60) outlined how the firm was not large enough to compete in the lucrative cruise liner industry, but did have the necessary economies of scale and scope to be a local leader in smaller vessel service provision.

As evident from Figure 6.3, the 34 FEO firms placed a huge emphasis on the owner-manager characteristics (4th ellipse), particularly work and life experiences, qualifications and skills, and owner-manager philosophy, values and behaviours. What the owner-manager did, what she knew how to do, and what she believed in where deemed to be of cardinal importance. Whilst there was an expected spectrum of individual behaviours, beliefs and cultures, certain trends and correlations between the 34 owner-managers did appear. From the qualifications and skills perspective these varied widely, although invariably owner-managers had acquired a range of competencies that allowed them to excel in what they did. Work and life experiences often showed a strong grounding in the industry in question, with many years of experience in the same industry or a complementary one. Values and beliefs were repeatedly and consistently emphasized upon, such as discipline, a belief in quality, customer satisfaction and value for money, maintaining core family values, keeping an open door policy, fair and flexible human resource management, dedication, hard work, the value of experience, and a solid knowledge background. An interesting issue again emerged regarding the entrepreneurial aptitude of the owner-managers, not dissimilar to the case seen for SBO firms. Whilst there was little conservative behaviour evident, owner-managers demonstrated entrepreneurial philosophies that were on par, or sometimes in excess of, the FEO states of the firms. This was not in line with the mechanistic management philosophy one would automatically expect from a FEO firm. For example, the owner-manager of a cigar manufacturing firm (Firm 31) described how he did not believe in depending on one line in business, and very much believed in diversification. This firm's FEO state was however understandable; the owner-manager was inducting one of his children, an engineer, into the business, and appeared willing to strengthen the cigar manufacturing side in the meantime. Another example is that of a software manufacturing company (Firm 55) that had just invested substantially in developing a computerized maintenance management system, and was cautiously containing the creative flair of the organization whilst software sales tentatively took off. Many other owner-manager behaviours were, however, more mechanistic to this, and seemed better matched to the FEO behaviour of the firms.

Two other ellipses are highlighted in Figure 6.3, showing a coding intensity relating to various different life cycle stages. In particular, strategic moves for the growth stage, maturity stage, decline/refocus stage and even the loop-within-the-loop situation were main areas of respondent focus. A study of the text segments reveals a number of issues. More prominent to that of the SBO case is the fact that FEO respondents more freely described strategic actions taken at various stages of their company's evolvement. This meant that past actions were described, together with present moves being made and even future projected actions that were planned. Care was taken to focus on present strategic actions, in line with the typological objectives of this research stage. Having said this, analyzing all text segments (past, present and future) provided by the *Text Retrieved Segments* function did allow for a greater understanding into the meaning of the firms' present actions. There was no evidence in the text that FEO firms were primarily in growth, maturity or decline stage. Strategic actions encompassed a wide spectrum of moves, such as work to complete key contracts, investment activities, resourcing actions, shareholder moves, moves to acquire customers and penetrate markets, competitive actions, stock management actions, and moves to acquire or strengthen networks and partnerships. Whatever the strategic actions taken, the focus would always be on strengthening an FEO posture, even if this was not the preferred owner-manager option. In some cases the FEO state was a pre-meditated and much desired orientation, such in the case of a tax advisory service (Firm 42) that wanted to focus on a limited number of large foreign clients. In other cases, FEO was an outcome of circumstances, such as for an engineering firm (Firm 17) that was now operating in a mature and saturated telecommunications market, this conditioning their strategic behaviour accordingly.

Four other areas of coding intensity are shown in Figure 6.4, and relate to the *Consequences and Outcomes* category and its sub-categories and properties. The second ellipse shows an FEO focus on the *functional efficiency* property, which is to be expected for these FEO firms and will not be discussed further. The first ellipse shows a strong respondent focus on the *resource-based stance*, particularly the physical and human resources. The relationship between this stance and the FEO state was made most clear by the descriptions and discussions provided by respondents. The resource base clearly allowed the FEO firms to create the structures and mechanisms with which to enact the business orientation. Human resourcing was focused on skilling and obtaining adequately qualified staff, appropriately sizing and structuring the organization, deploying students and part-timers in a flexible firm concept, and in building adequate working relations between owners and staff. Physical resourcing focused on efficiency enhancements through automation, investing in machinery and equipment, in sizing the company in accordance to investment decisions and size economies, in acquiring central and accessible headquarters, and in deploying adequate software and ICT systems. For example, a tooling company working in the marine industry (Firm 45) described how the firm had halved the amount of employees over the years, and now rigorously trained their existing employees to allow them to compete in a very aggressive industry. A laboratory company (Firm 36) also reduced the employee count from four to two upon being faced with a situation of highly qualified yet incompetent staff, meaning that the remaining staff had to centralize and mechanize the work they were taking on. A ship registration firm (Firm 58) explained how their central location in the hub of the Maltese capital allowed them to have quick access to the various entities that they were required to interact with, allowing them to standardize and simplify operations. And so on.

Together with the *resource-based stance*, the *engineering stance* is shown in Figure 6.4 to be an area of very high coding intensity. As shown, all of the *engineering stance* properties were given prominence by the FEO owner-managers. An analysis of the relevant texts shows an evident trend towards professional workmanship, mainly going into two directions. Firms were all highly focused on a limited range of products or services. Some of the firms were highly routinised, and had focused their core activities on carrying out a standardized process where repetition and efficiency were key success factors. Other firms had focused on higher end products/services, creating a limited portfolio of goods or services that were more differentiated, that demanded key skills and knowledge, and that were difficult for competitors to emulate. Whether high or low value added, the firms were invariably highly focused on a limited range of activities and had attempted to establish the best competitive conditions possible to carry out these activities. High client focus was also most evident throughout.

For example, a firm manufacturing steel garage doors (Firm 53) described how they had established a reputation for door construction and installation by focusing solely on this trade, and by only using quality metals and fittings imported directly for this purpose. Similarly, a larger company manufacturing steel vessels (Firm 24) detailed how they had implemented a strategy of first procuring the brand name of an international steel manufacturing firm, then obtained the necessary ISO certification, and had now built a solid local reputation for carrying out turn-key projects including design, construction, testing and certification stages for steel structures of a large variety of configurations. Another company manufacturing drainage devices (Firm 21) outlined how they had penetrated the international market and managed to brand their product, this by having a range of models and sizes that served to fill up product space and boost competitiveness. A company carrying out sorting activities on O-rings (Firm 9) expanded upon how their core activity of quality testing for manufacturing defects was a highly standardized one, and one that demanded routinised but highly focused manual operations.

The final ellipse in Figure 6.4 shows a high coding intensity directed towards revenues, profits and sales, a property of the *organizational performance* sub-category. This differs from the SBO situation where businesses were more reluctant to make direct references to performance related criteria. Of the various performance criteria shown in Figure 5.2, FEO owner-managers deemed financial criteria such as profits, increase in sales, and asset value to be the most important. FEO firms were at various profitability levels; some fighting to survive while others reporting a satisfactory performance. There appears here to be a link between the FEO state and the focus on financial performance. One hypothesis is that for this particular orientation, due to the levels of routinization, financial performance is both easier to interpret and a more just measure of the firm's true achievements. A second reason may be that FEO owner-managers are intrinsically more financially motivated, and direct their firms towards activities that can clearly relate to profitability achievements. FEO firms had a mean firm size of 15 full-time employees. This is more than double the size of SBO firms, although smaller than the forthcoming RDO and UDO firm sizes. Over half the firms were service oriented, although this is not far different from the ratio of service firms to the whole population of firms researched (28 of the 67).

6.5 Firms in a *Related Diversification Orientation* State

Fourteen businesses were identified as having adopted a *related diversification orientation* (RDO) state, showing higher levels of entrepreneurial orientation as evident in their risk taking, innovative and proactive behaviours. As described in Chapter 5, this appeared to be a guarded, or contained stance, with a predominant focus on controlled diversification into areas of existing expertise. A review of the main areas of coding intensity for these RDO firms will serve to expand upon this theme.

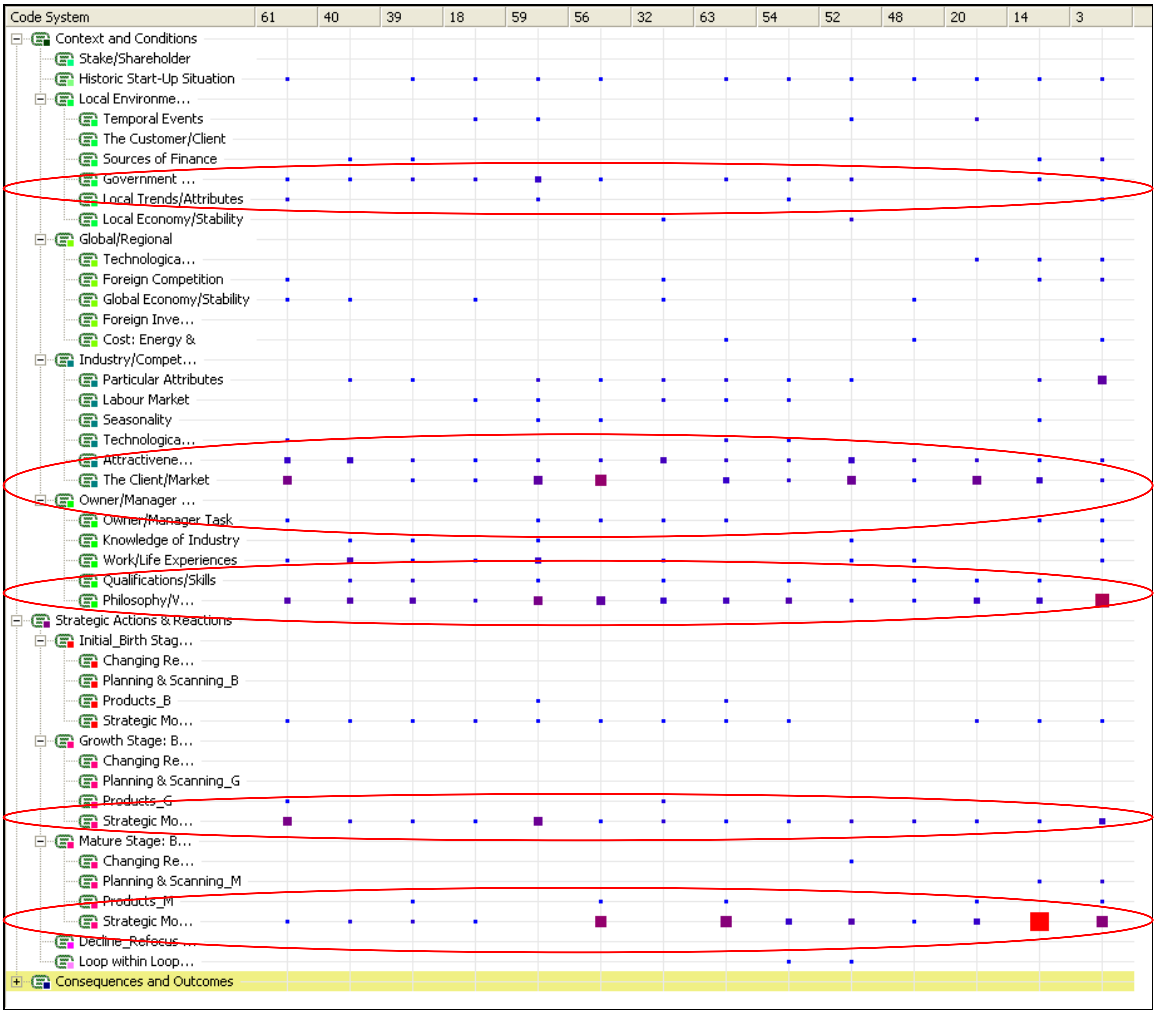


Figure 6.5: A Code Matrix Browser Screen for Firms in a *Related Diversification Orientation*

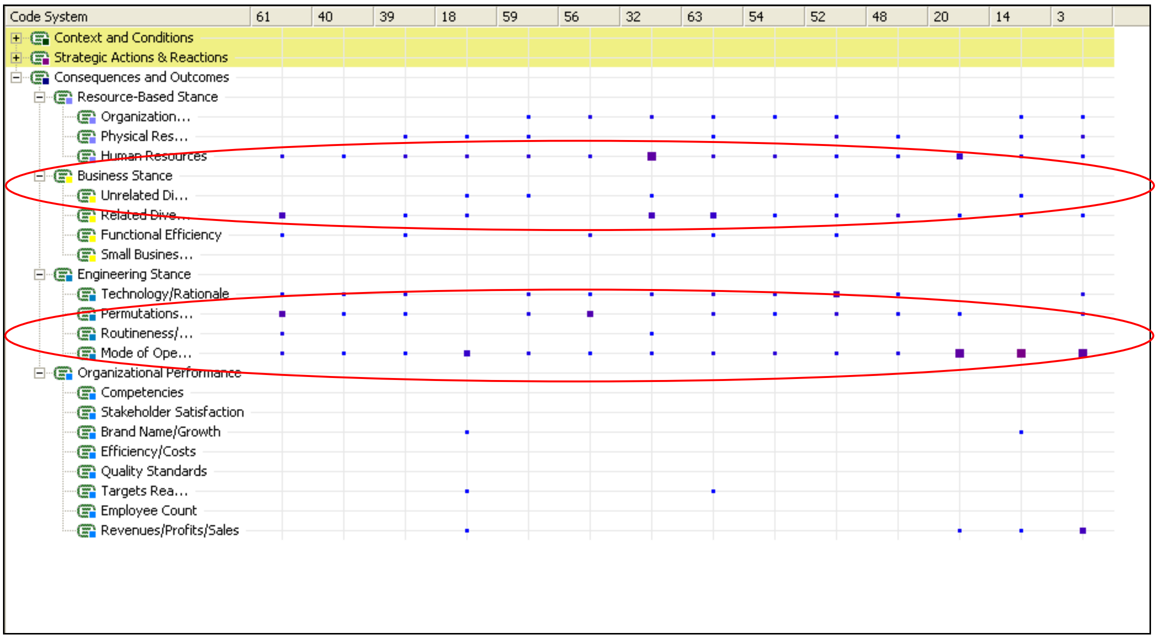


Figure 6.6: A Second Code Matrix Browser Screen for Firms in a *Related Diversification Orientation*

Figures 6.5 and 6.6 indicate seven areas of high coding intensity. The first ellipse shows a focus on the *local environment*, particularly governmental actions and interventions. Application of MAXqda's *Text Retrieved Segments* function provided a detailed insight into this property. RDO firms showed a distinct proactiveness in behaviour, sometimes bordering on aggressiveness, towards the local government's involvements. Two main areas of governmental involvement were evident; a more generic strategic mindset and direction from the Government in power and, as an outcome, the actions and interventions being implemented (or being omitted) by the Government. Various areas of importance were highlighted, such as governmental assistance in funding and other assistance schemes, high level political decisions being made and resulting legislations, and control mechanisms being deployed (or not being deployed adequately) to regulate the various industries. Most of the RDO firm reactions to government were negative, showing impatience at slow moving decisions and indecisiveness, and the lack of vision and control. These were evidently firms ready to act, but often felt that the bureaucracy around them was stifling their initiatives. A few contributions were more positive, where firms felt that the local government had given them the opportunities to grow. One example is a company manufacturing seamless flooring systems (Firm 56) that described how a governmental decision to enforce seamless floors on certain establishments, for health reasons, had opened up a whole new market for them. Conversely a point-of-sales software company (Firm 54) expressed extreme frustration at being made to repeatedly apply for assistance funds from government, and having the terms and conditions of his application changing each time making the task practically impossible to finalize. A company that hand-manufactured local souvenirs at the national crafts village (Firm 52) showed extreme criticism towards government for their lack of vision and consequent incapacity to rejuvenate and invest in the area. Whether positive or negative, the contributions made by the RDO firms all showed an energy towards evolving their businesses further, with the expectation that the Government should assist them in this regard.

A second area of coding intensity is highlighted by the second ellipse in Figure 6.5, and shows a strong RDO owner-manager focus on the *relevant industry* and competitive factors. Particularly, the industry attractiveness and the client – market conditions are given prominence. RDO firms were seen to be operating in industries of varying levels of competitiveness and concentration. Industries ranged from mature and highly saturated, to younger, more dynamic industries with greater potential for growth. The industry conditions described referred to more than just the competitors, but also to various value chain factors such as upstream suppliers, downstream customers, new entrants, and so on. One could definitely not say that RDO owner-managers purposely chose to operate in an industry that provided the best opportunities for growth. Similarly, a wide spectrum of consumer trends and market fluctuations could be noticed. Consumer markets were in various stages of growth, maturity and decline. International markets had often been tapped into, changing the competitive scenario substantially for the firms concerned. Whilst there was no clear pattern regarding the industries and markets, there was in the case of interactions of owner-managers with their respective industries/markets. Owner-managers were seen to be careful not to enter into industries alien to their direct areas of expertise, but did show strong entrepreneurial behaviour within their particular areas. For example, a company specialized at organizing events (Firm 59) went to great pains to market the island internationally, seeking to build Malta as a hub for international conferencing. The firm’s planned strategy was to provide this growing market with a range of complementary services including film sets, set designs, sound provision, and advertising support. A small architectural firm (Firm 32) lamented that the large local architectural consortiums had made the local market unattractive, and was rigorously working to expand operations abroad. The firm saw internationalization as the only way forward, and had increased its skills base to four complementary areas of expertise to be able to succeed in the larger foreign markets. These skills were architecture and design, synergy and structural engineering, master planning and planning work, and environmental impact assessment work. Another firm specializing in the boat construction industry (Firm 63) had decided to concentrate on the local market, but was gradually capturing more and more market share by combining a range of boat manufacturing, importing, and servicing activities with a focus on high-level client commitment. Whether restricting themselves to the local market or not, whether in a dynamic or munificent industry, RDO owner-managers invariably applied a formula of diversifying their value adding activities in a controlled but determined manner.

The third ellipse in Figure 6.5 shows a coding intensity focusing on the *owner-manager characteristics*, particularly qualifications and skills, the particular philosophy, values and behaviour. The skills levels of owner-managers were once again varied, ranging from vocational skills to various levels of academic qualifications. There was, however, a strong drive towards additional skilling and continuous professional development, with few owner-managers appearing content with their present levels of knowledge. Attributes highlighted were high levels of determination and drive, a strong sense of control, decisiveness, a clear and focused vision, strong ethical standards, an intrinsic knowledge and understanding of the industry, and an innovative, proactive mindset. Owner-managers placed a strong emphasis on customer service, quality of service, price competitiveness, and sincerity towards the client. There was even less conservative owner-manager behaviour evident than in the previous two orientations, but again, levels of entrepreneurial behaviour were varied. Some owner-managers simply showed more risk acceptance, innovative and proactive behaviour than others. The question that begs to be asked here is; why would the more entrepreneurial owner-managers limit their firms to an RDO state? In other words, why not diversify further and invest in totally new industries and markets, given a higher entrepreneurial orientation? Whilst it could be that the more entrepreneurial owner-managers were faced with more competitive industries, from the previous discussions this does not seem to be the case. However, from the various explanations given by the owner-managers two alternative reasons could account for this situation. Both reasons relate to inertia, but for different conditions. One form of inertia was inertia due to organizational momentum, where the organization would have been built around a certain core area of expertise, and it was very difficult for the owner-manager to move the firm in an entirely new direction. A second form of inertia that could also be contributing to the RDO state was that of the owner-manager's own area of expertise. Notwithstanding a high entrepreneurial philosophy, some owner-managers appeared too strongly bound by their area of specialization, too strongly attached to the skills they had acquired over their working life. One example of this was an electrical engineer who had built one of the first local computer firms (Firm 20). Notwithstanding a vast knowledge of electronics and information systems, as well as a high entrepreneurial drive, the engineer preferred to direct his energy to diversifying into related computer-oriented areas.

The fourth and fifth ellipses in Figure 6.5 show a high coding intensity focusing on the strategic moves taken by RDO firms in growth as well as in maturity life cycle stages. Again, texts highlighted by the *Text Retrieved Segments* function indicated past, present and even projected strategic actions being taken by the respective owner-managers. Actions taken by owner-managers could be categorized into two areas; tactical short-range actions, and more strategic long-range moves. The more tactical actions were taken to resolve particular competitive situations, to acquire a certain resource, to market a product, or to control for organizational issues. Longer range strategic actions focused on building competencies, on new or strengthened networks, access to new markets, acquiring new skills, building particular barriers to entry, and in enhancing the characteristics of the main products/services on offer. As expected, the moves and actions related to the attempts by the firms to build or sustain their RDO status. One sorting company that carried out quality control tests (Firm 18) described how steps were being taken to open up a company in China with the aim of carrying out similar quality assurance activities. The owner-manager lamented that he was late in the day for this investment, but could not carry it out earlier because of the initial growth challenges that the local company had faced. A point-of-sales software company owner (Firm 54) described how he had taken steps to eliminate a third party software system and develop a customized system better designed for the local market. By gradually integrating various other user-requested applications and functions into the new software system he was now in a position to offer a highly differentiated yet affordable product. A further advantage was that he could also now go into other areas of business automation and control, expanding from this initial area of focus. The owner-manager of a small computer firm (Firm 14) described how the business was thriving by expanding in the restricted local market, into complementary areas of ICT project implementations, UPS sales and maintenance, PC sales and repairs, and printer/cartridge services.

Two other areas of high coding intensity are highlighted by ellipses in Figure 6.6. The first ellipse makes reference to two areas; the *resource-based stance* and the *business* *stance*, particularly the *related diversification* property. As RDO behaviour is already under discussion, a focus shall be placed on the *resource-based stance*. Physical and human resource properties are shown in Figure 6.6 to be an area of high owner-manager focus. A large range of HR tactics and initiatives were being deployed by the 14 RDO firms. The *Text Retrieved Segments* tool highlighted varied working conditions, different organizational structure designs, skills and training schemes, motivational strategies, multiskilling, multitasking and flexitime schemes, cost control mechanisms and so on. Invariably, for the RDO firms, two issues repeatedly stood out. These were control and quality. Control was strongly exercised by owner-managers in many areas, such as cost control, control over employee performance, direct and often detailed involvement in the employee task, and directly being involved in motivational schemes. Owner-managers also went to great lengths to be knowledgeable on the value adding tasks that employees were responsible for, often to a greater extent than the employees themselves. This micro management may have a negative; that of not allowing the owner-managers the time to look into new areas of business development. This issue may correlate with the theme discussed earlier on organizational momentum, an owner-manager being divided between two loyalties; an entrepreneurial drive on one hand and a feeling of necessity to micro manage on the other. Physical properties referred to were choice of location, types of facilities, levels of automation and technologies deployed. The RDO firms were a varied sort, from stone decorators to conference organizers to glass blowers, boat makers, PC retailers, and so on. Physical resources thus varied greatly, both in type and in cost.

The final ellipse in Figure 6.6 looks towards the *engineering stance* deployed by the RDO firms. Most *engineering stance* properties were deemed important, such as the mode of operations, technology adopted and the various permutations deployed. An evident pattern was apparent here, and can be described by viewing the firms' engineering process as a two-staged affair. The first stage would be the grounding that the firms would have gone through to build a core process, that is, a core value adding activity. The second stage would be the launching of related additional value adding activities (and resulting products/services) as off-shoots to the first. Reasons for this related diversification were varied, and have already been discussed in the previous industry and competitive factors. In some cases the businesses were aiming at filling in product space so that they would gain dominance in the various complementary areas relating to a local industry. In other cases the businesses saw diversifying and specializing as supporting activities; specialization in one area could be used to diversify into a complementary area, whilst diversifying into the new area would be an impetus for further specialization in the initial area/s. One company specializing in flooring (Firm 56) described how the business had gradually diversified into two related areas; waterproofing and industrial flooring. The owner-manager admitted that the move from the first area and into the second had been a natural outcome of the expertise gained, and insight into the seamless processes common to both areas. Another company making wiring and other metal products (Firm 40) saw no need to go outside the industry and existing local market, and gradually increased the range of machinery and skills to specialize in a wider range of wiring, fencing, and metal goods. The owner-manager achieved a balance of expanding and investing in related metal-works areas with being heavily involved in the company's manufacturing processes, to the extent that he admitted to knowing how to dismantle each and every machine that the company had acquired.

The RDO firms were slightly larger than FEO firms, and substantially larger than the SBO firms. The average firm size is slightly over 18 full-time employees, compared to 15 for FEO firms and 7 for SBO firms. Performance was somewhat more difficult to measure for the RDO firms, with owner-managers referring to a wider variety of performance measures and achievements than seen in the case of the FEO firms. Achieving a sizeable customer portfolio, increases in turnover and profits and return on investment were mainly referred to. Many RDO owner-managers resisted directly discussing firm performance, but would give plenty of indication indirectly in the ongoing discussions. RDO firms were a mixed blend of manufacturing, service and retail firms, with no bias towards any particular type.

6.6 Firms in an *Unrelated Diversification Orientation* State

Six firms were classified as having adopted an *unrelated diversification orientation* (UDO) state. The levels of risk acceptance, innovativeness and proactiveness for these six firms were the highest, with behaviours evidently exceeding the entrepreneurial boundaries of the earlier SBO, FEO and RDO firms. The general trend was for these firms to accept risk relating to entrance into new industries and markets, to proactively compete within these diversified industries, and to be more innovative in their value-creation activities within and outside the organization. In more detail, the *Code Matrix Browser* screen shots for these six firms are shown in Figures 6.7 and 6.8 to have seven areas of high coding intensity. These will be scrutinized to learn more about the UDO firms' particular behaviours.

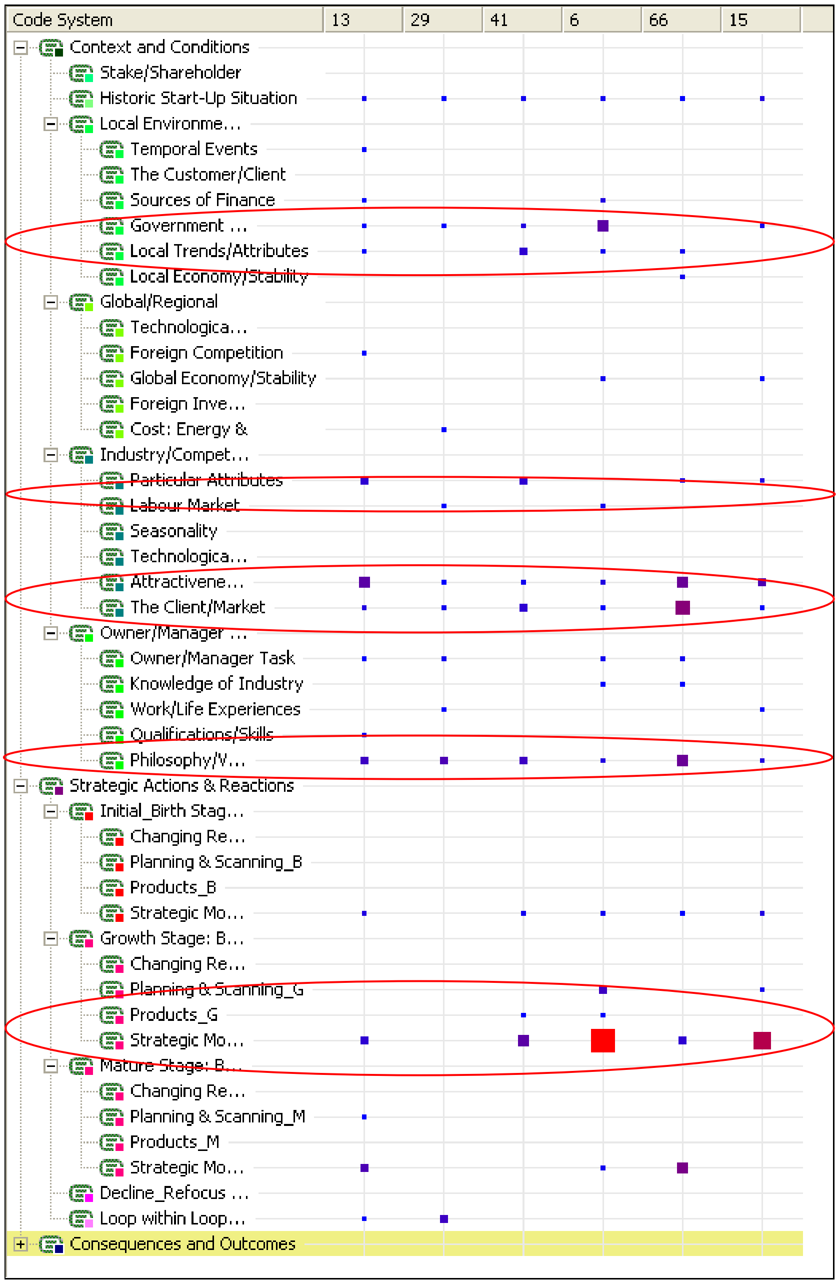


Figure 6.7: A Code Matrix Browser Screen for Firms in *Unrelated Diversification Orientation*

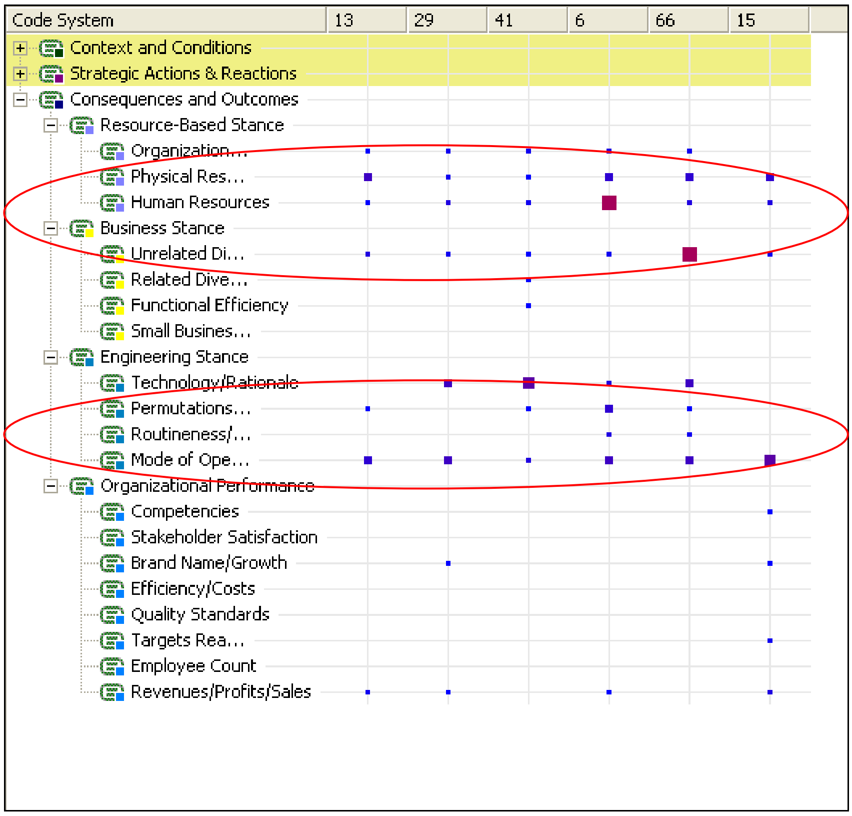


Figure 6.8: A Second Code Matrix Browser Screen for Firms in *Unrelated Diversification Orientation*

The first ellipse in Figure 6.7 shows a high coding intensity placed on two *local environment* properties; government actions and interventions, and local trends and attributes. It is first important to note that the six firms were a widely varied range of businesses, from retail to manufacture to various service industries. Also, markets being accessed were a mix, with some firms only servicing the local market, others accessing both the local market and also exporting, and yet others focusing predominantly on export. Whilst this blend placed a divergence of needs and requirements on the environments to the firms, the coding relating to the first ellipse showed a clear owner-manager emphasis on one particular theme. All six firms could be seen to be working in the margin, that is, being truly innovative in building value added activities outside the initial areas of business focus. Whilst more will be said on this when describing the business's *engineering stance*, it was observed at this stage that the owner-managers were invariably seen to be struggling in an environment that was simply not on par with their entrepreneurial efforts. Particularly, they were dealing with a government and even a consumer that was unaware, uninformed, and even uncaring of their genuine attempts to create new business. It was as if the businesses came from a different cultural background to that of the national culture within which they had to operate (particularly Hofstede's *uncertainty avoidance* dimension). One owner-manager that had opened up a most innovative aqua-biotechnology firm (Firm 6) lamented how he would soon have to move the company outside the Island as there was simply not enough governmental assistance in vital areas of research and development. Another business going into various local and export activities relating to paint manufacture and varnish import (Firm 66) described how local port monopolies and charges eroded his competitiveness, making further expansion difficult. A waste recycling firm that was one of the first on the Island (Firm 41) explained how the business had to go through excessive hurdles with the local environmental regulator, before finally managing to establish a viable operation.

The second and third ellipses depicted in Figure 6.7 highlight an owner-manager emphasis on three properties relating to the *relevant industry* sub-category. These are the industry's particular attributes, its attractiveness, and the particularities of the client and market. Once again, a central theme was evident, tying down to the issue of competitiveness within a small island state such as Malta. The six UDO firms all appeared to be building successful barriers of entry, with the knowledge that industry competitiveness would pick up once competitors understood the firms' sources of competitive advantage and attempted to emulate these. These UDO firms were, however, even more proactive in their attempts to build sustainable competitive advantage, and this through a variety of means. Cross-functional knowledge was Firm 6's strategy, being applied by specializing in a number of high-technology areas that contributed to an integrative level of knowledge not easily imitated. Firm 15 used a different strategy; building up resource configurations in different areas of business that were not easy to replicate. One of these was the purchase of a number of pharmacies that guaranteed a client base for pharmaceuticals being imported by the firm. Firm 29 utilized its R&D capabilities, as well as its international branding, to diversify into a product line that related to the water industry and not to their core battery sensor industry. Firm 41 managed to acquire a strategically placed tract of land next to the national landfill site, allowing it to have a sustainable advantage in waste separation and disposal. The logic of these firms was similar, even if the industries varied tremendously. Whilst, as shall be shown, the firms were all predominantly in growth stage, the growth was being carefully channeled towards building competitive strengths through product/process diversification and corresponding resource acquisition. The synergies and spill-overs being acquired were seen to be a prelude to heightened levels of competitiveness that would appear when the industries reached further stages of maturity.

The forth ellipse shows a high coding intensity placed on the *owner-manager characteristics*, particularly the philosophy, values and behaviour of the owner-manager. Owner-managers freely discussed their values and beliefs, in fact, with less reservation than those of the previous three orientations. Whilst once again qualifications and skills varied, this category of owner-managers was the most professionally or academically qualified of all, with four of the six owner-managers holding a first degree and two of these having post-graduate qualifications. There was a very distinct common element in the values and beliefs shared. Owner-managers were more aggressive, determined, competitive and innovative in their behaviour. A high level of drive and self-motivation was invariably shown in the arguments and descriptions provided. One particular trait that was evident was the approach owner-managers adopted towards risk. There was a high level of risk acceptance, but it was far from a blind acceptance of risky endeavors. Owner-managers carefully applied strategies to mitigate the perceived risks that they were being faced with. An example of this is the approach adopted by Firm 66, where two brothers were managing a company specializing in paints (import, and both generic and specialized application) and coordinated risk between them, with the more entrepreneurial brother coming up with the innovative ideas and the more risk averse brother applying the brakes where necessary. Another trait that stood out was a determination not to be indebted, that is, not to be compromised in any way. This was seen in owner-managers' behaviour towards employees as well as towards suppliers, customers and governmental agencies. One owner-manager described how the firm (Firm 29) had adopted a policy of never relying on bank financing, using solely equity provided by shareholders to avoid being conditioned into how to use the finance, once obtained. Another firm (Firm 41) explained how they had preferred to wait a number of years for the local planning authority to grant them a development permit, and had avoided with determination any attempts to cut corners or to ask for favours. This same dogged determination was shown towards employees, where for example one owner-manager (Firm 29) asked an employee who he thought would be held responsible if that same employee failed to acquire a sizeable EU grant. A high level of thriftiness was often evident in the comments made by owner-managers, once again demonstrating a determination to succeed by also eliminating undue wastage.

The final ellipse in Figure 6.7 highlights an owner-manager emphasis on strategic moves taken by the UDO firms in their growth stage. Although the company's ages ranged widely, that is from a few years to over 30 years, the firms were predominantly in a stage of growth, as opposed to birth, maturity or decline. Also, the growth described could be deemed to be organic, very much alive and flexible to the directions set out by the owner-managers. The coded texts indicated two forms of strategic moves taken by owner-managers; tactical short-range actions and the more integrative long-range strategic actions. Whether tactical or strategic, the actions taken were either knowledge-based or resource-based, and invariably showed firms re-inventing themselves and acting outside the limitations of the existing organization. Tactical actions included works to complete an important contract, actions to consolidate various internal ventures, advertising actions being taken, financing activities, projects underway, and significant problems being solved. These actions fuelled the more strategic moves such as research and innovation activities, new ventures embarked upon, licenses acquired, expansion and internationalization efforts, networks established, and steps to diversify into a new product/market area. One example of how businesses would use tactical moves to arrive at a strategic objective was that of a company dealing in import/resale of pharmaceuticals (Firm 15). The firm owned over a dozen pharmacies on the Island, making it one of the largest local pharmacy owners. Notwithstanding the guaranteed (if somewhat low) revenues from these pharmacies, the firm had established an exit-strategy whereby they would sell off pharmacies as soon as the time was opportune, allowing them to finance other totally different areas of operation (such as a call centre and a totally separate freeport activity). Another example was that of an engineering firm (Firm 66) that had established, amongst other operations, paints as a core business area. The firm bought out a local paint importation firm, and complemented this acquisition by going into an innovative service of painting and treating hotel bath tubs, something no other competitor was doing at such a large scale. An aqua bio-marine business (Firm 6) described how it had complemented its international marine consultancy operations by setting up a local research and development wing, working in parallel with the ongoing operations.

Two final ellipses that are shown in Figure 6.8 highlight areas of high coding intensity that focus on sub-categories/properties relating to the *Consequences and Outcomes* category. The first shows, apart from the expected references to the *unrelated diversification orientation*, a strong focus by owner-managers on the physical and human resource properties of the *resource-based stance*. UDO firms had a wide variety of physical resource configurations, depending largely on the type of the firms' value adding activities.

The one manufacturing firm (Firm 29) was in a state of plant expansion, requiring substantial extensions to the footprint of the firm and to its equipment/machinery base. Retail firms (e.g. Firms 13, 66) were similarly in a state of premises expansion. Service firms were less demanding on physical resources, and showed a greater capability for acting as a flexible firm with resources often dispersed around the globe. Human resource configurations of the UDO firms demonstrated high technological levels of expertise and skills, flatter structures but with a centralized base, and more complex and challenging motivational and loyalty scenarios. In fact, of the six firms, four could be deemed to be highly technological (Firms 6, 15, 29 and 41) and two to be moderate to highly technological (Firms 13 and 66). By technological what is meant here is that many of the internal value adding activities, as well as the external value chain interactions, were technology driven. Examples of this were the adoption of modern injection molding machinery (Firm 29), the implementation of innovative geographical information systems (Firm 6) and the introduction of advanced waste management methodologies (Firm 41).

The second ellipse in Figure 6.8 shows a consistently high coding intensity focusing on three of the four properties of the *engineering stance*, these being; the mode of operations, the product details and permutations, and the technology/rationale of the core value adding processes. These value adding activities ranged from research to manufacture to various service-related activities. Owner-managers described in detail how they were achieving, and then maintaining, expertise in the various areas of activity of their organization. This appeared to be highly challenging, and owner-managers were heavily involved in both the creation and the sustaining of these diversified value adding activities. This ultimately meant that the diversification activities were directly dependent on the innovativeness, knowledge basis, entrepreneurial flair, and sheer hard work of the owner-managers themselves. This has, in fact, already been seen earlier on in the discussion on the UDO owner-manager characteristics. The high level of technology being applied, the innovative practices and processes, and the management of particularly dynamic organizations had to be carefully coordinated by the dominant coalition. An interesting point on this concept of 'dominant coalition' emerged, one that was not evident for the SBO orientation, and to a lesser extent for the FEO and RDO orientations. In all six UDO cases, the dominant coalition was more than a one-person affair. Firm 6 had a small team of highly qualified and geographically dispersed senior managers. Firm 13 was run by a small board of family members. Firm 15 was managed by two close colleagues. Firm 29 was jointly managed by a CEO and a trust-holder. Firm 41 was managed by two sisters, and Firm 66 by two brothers. In all cases it appeared evident that the firm's management was delegated between these coalition members and not hijacked by some one member. A question of causality arises here; is the large (relatively speaking) and dynamic UDO firm a consequence of the well-synchronized efforts of highly entrepreneurial partners, or does a growing UDO firm necessitate (and hence be a prelude to) these particular dominant coalition characteristics? The forthcoming Chapter 7 shall look towards a trajectory-based study to attempt to answer this question.

Once again, UDO firms were spread between different business types without any particular bias. What was immediately apparent, however, was the large average firm size, at 34 full-time employees when compared to 18 for RDO firms, 15 for FEO firms, and 7 for SBO firms. That is, nearly double the size of RDO and FEO firms. This large average size is understandable, given the prime objective of this orientation to grow via unrelated diversification. In summary, the UDO firms were fewest in quantity (6 compared to 13, 14 and 34), the most diversified in activities, industries and client/market bases, and with the highest synchronization between the entrepreneurial behaviour of the firm and that of its owner-managers. This last point is an important one, as we see here a divergence from the SBO, FEO and RDO situations where owner-managers did not always appear fully compatible with the level of entrepreneurial behaviour of the organization. In these previous three orientations there appeared to be a 'lower limit', such that owner-managers had to be at least as entrepreneurial as the firm, but could in fact be much more so. In a UDO firm there had to be full convergence between the owner-manager's entrepreneurial behaviour and that of the firm. This argument leads to another point that will be amplified upon in Section 6.7 and coincides with the "coalignment" argument seen in the literature; the need to understand two strategic behaviours, that of the firm *and* that of the owner-manager of the firm.

Performance proved somewhat of an elusive measurement to obtain. This was particularly so because, in this case, the owner-manager was being asked to give a single interpretation of a multi-faceted phenomenon. With different areas of business at different levels of performance, this is understandable. It must be appreciated that the grounded theory method does allow for more than one mechanism for measuring performance. The direct references to performance by UDO owner-managers looked towards two complementary measures; growth in revenues, size and profits, and the achievement of competencies/resources that would subsequently allow them further growth. Indirectly however, these two measures, and their importance, were also made evident by the detailed renditions provided by the owner-managers when describing the strategic actions being taken, stances being adopted, and environmental challenges being faced. In other words, it was normally possible to establish what owner-managers perceived to be important performance criteria, and whether they were achieving these criteria, even without directly questioning the topic. This would serve to add confidence to the interpretations directly provided by the owner-managers on the firm's performance.

6.7 Characteristics of the Typology and the Link between Owner-manager Philosophy and the Firm's Strategic Orientation

The Framework (Figure 5.2) has allowed for the separation of the behaviour of the firm (operationalized primarily through the three stances in the *Consequences and Outcomes* category) from the behaviour and situation of the owner-manager of the firm (operationalized through the *Actions/Reactions* and *Context/Conditions* categories). When describing the characteristics of the four strategic types (or more correctly, states), it has been argued that owner-manager behaviour and firm behaviour may have somewhat differing entrepreneurial orientations. The highest congruence would be found in UDO firms, then RDO firms, followed by FEO firms, and the least in SBO firms. This is not a new phenomenon in the literature, and authors have highlighted the divergence before (e.g. Kroeger 1974). In their seminal work, Mintzberg and Waters (1985) argue that, for a small business, the firm's realized strategy will not be the owner-manager's deliberate strategy, but will emerge at a tangent resulting from the influence of environmental factors. Thus, owner-manager strategy and firm strategy differ, as will their evident behaviours. A more direct comparison is made by Miles and Snow (1978 p. 126) in their argument that "*the relationship between management and type of organization appears to be constrained in one direction*". The authors posit that this unidirectional concept is logical; managers with a creative, inclusive and dynamic philosophy can successfully manage a 'defender type' firm, whilst managers with a conservative, reactive philosophy cannot manage a 'prospector type' firm. Miles and Snow (1978 p. 129) conclude with a warning that "*no form of organization can be operated effectively unless it has an appropriate accompanying managerial theory*".

The following Figure 6.9 attempts to map out this *strategy – management philosophy* alignment. A number of integrating concepts are shown. First, the top graph depicts the small business strategy typology of SBO, FEO, RDO and UDO firms that has been the subject of this chapter. The 67 firms have been mapped out against two axis; firm entrepreneurial behaviour on the X-axis and propensity for growth on the Y-axis. Sadler-Smith et al. (2003) posit that intention to grow and an innovation/change orientation are characteristics of firm entrepreneurial behaviour. In fact, the choice of X-axis is supported by the literature, such that "*firms with conservative strategic postures are risk averse, non-innovative, and reactive. Firms with entrepreneurial strategic postures are risk taking, innovative, and proactive… Notably, this characterization of strategic posture along the conservative-to-entrepreneurial dimension has been well accepted in the strategic management and small firm management literatures*" (Miles, Covin and Heeley 2000 p. 65). In consistency with Porter's strategic group mapping techniques, the resulting taxonomy is shown by the sizes and the positioning of the different ovals. To the bottom of Figure 6.9 the owner-manager philosophy is also mapped out, ranging in a continuum from conservative to entrepreneurial in nature. This polarity in entrepreneurial behaviour has been frequently referred to in the literature review, a similar example can be found in McCarthy's (2003 p. 158) charismatic versus pragmatic entrepreneurs. The coalignment of the owner-manager philosophy with the firm strategic behaviour is visualized as being modified by a 'conditional lens', a concept that will be described in further depth towards the end of this chapter.

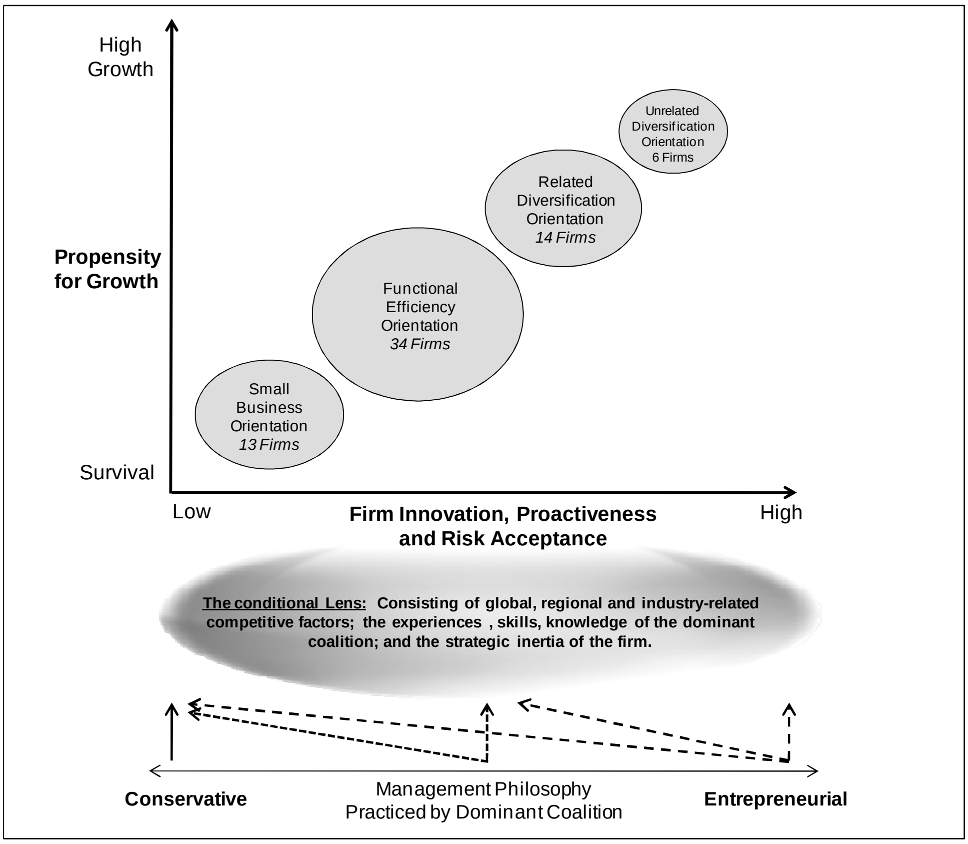


Figure 6.9: Strategy Typology, Management Philosophy and the Conditional Lens

Table 6.1, on the following page, provides a summary of the typology's main characteristics. Whilst the descriptions simplify the more complex set of interactions described throughout the chapter, they do aid to highlight a number of interesting issues. First it is pertinent to say what the comparison does not do, that is, what its weaknesses are. The first weakness regards the approach adopted in the table, and in the whole chapter for that regard. The approach adopted has been a comparative one, highlighting the characteristics that are particular to the four different classifications in the typology of states. Characteristics that are common to the four orientations have been somewhat neglected in this approach, even though they are important contributors to the strategic behaviour of small businesses. One example of this is the *historic start-up situation* of the firm, shown in the various *Code Matrix Browser* screens to be a constant area of owner-manager focus. Another example is the *global environment*, again impacting upon the different orientations in much the same way.

A second weakness is that the typological exercise has only partially utilized the wealth of information provided by owner-managers in the interviews carried out. Once again, reference is made to Figure 5.3 and the subsequent arguments in Chapter 5 regarding the strategic trajectories of small firms. Table 6.1 provides a cross-sectional picture of a dynamic situation, one that has been described in detail by the various owner-managers. That is not to say that the picture is inaccurate, but neither is it complete. Integrating structure and process within the methodology has allowed for detailed knowledge to be acquired on the strategic actions and context of the small firm throughout the various stages of its existence. These have cumulated into present states of 'being', these present states summarized in Table 6.1. But, put in simple terms, had a UDO firm always been a UDO firm? Will previous behavioural patterns provide further understanding to the resulting typology that is shown? The literature review has argued that small firms do not suffer the same organizational momentum common to larger, and often more bureaucratic organizations. Understanding the strategic trajectories of the firms will add to the knowledge provided by the typology built so far, and complement the understanding it provides. This will be the focus of the forthcoming Chapter 7.

Characteristics	SBO State	FEO State	RDO State	UDO State
Number of Firms	13	34	14	6
Local Industry Conditions	Increasing industry competitiveness. Supply exceeding demand. Increasingly adverse conditions. Changing consumer patterns and behaviours.	A strong owner-manager awareness and knowledge of the particular industry conditions. Often niche markets. Strong customer focus/loyalty.	Industries ranging from mature and highly saturated, to younger and with potential for growth. Owner-managers careful not to enter into industries alien to their expertise, but showing strong entrepreneurial behaviour when within their areas.	Industry not yet matching the firms' competitive strides. Firms predominantly in growth stage, channeled towards building competitive strength through product, process diversification and resource acquisition.
Local Environmental Conditions	Little governmental support. Economic downturn increasingly being felt. Unfavourable legislation and government directives.	A heightened awareness and preoccupation towards government's contribution to the particular industry, whether adequately competitive conditions were being provided.	A high energy towards evolving the business further, with the expectation that local government should assist far more.	All firms working in the margin but struggling in an environment not on par with their entrepreneurial efforts. Government and consumer unaware and uncaring of firms' attempts at creating new business.
Global Influences	Increase in foreign competitiveness.	A dispersed focus on various global factors such as changing technologies and increasing foreign competitiveness.	A dispersed focus on various global factors such as changing technologies and increasing foreign competitiveness.	Increase in foreign competitiveness. Economic challenges.
Owner-manager Configuration	Usually one person. *(Mean 1.23)*	Predominantly one or two persons. *(Mean 1.5)*	Predominantly one or two persons. *(Mean 1.43)*	Two or more persons. *(Mean 2.33)*
Owner-manager Philosophy	Ranging from highly conservative to entrepreneurial.	Ranging from conservative to entrepreneurial.	Ranging from entrepreneurial to highly entrepreneurial.	Highly entrepreneurial.
Owner-manager Attributes, Skills, Expertise and Qualifications	Wide range of skills and qualifications evident. Highly seasoned and experienced owner-managers. Many owner-managers near retirement age.	Strong grounding in the particular industry. Competencies acquired allow owner-managers to excel in what they do. Very strong and determined values, beliefs. Various ages.	Wide range of skills, experiences, qualifications. Strong drive towards additional skilling and CPD. High determination and drive, sense of control, decisiveness, vision. Innovative, proactive mindsets.	Most professional and academically qualified of all orientations. More aggressive, determined, competitive and innovative in behaviour. High drive and self motivation evident.
Focus of Strategic Actions	Mature and decline/refocus stages. Actions towards retrenchment, efficiency maximization, cost reduction and control.	No predominant life cycle stage, meaning that firms could be in growth, maturity or decline. Strategic actions taken by firms mainly aimed at strengthening their FEO posture.	Mainly in growth and maturity. Strategic actions focused on building competencies, networks, access to new markets, building barriers to entry, enhancing characteristics of main product/service.	Firms in growth stage. Organic growth with knowledge and resource based actions showing firms reinventing themselves and acting outside the boundaries of the firm.
Business Stance Adopted by Firm	Low risk propensity. Low levels of innovativeness. Little proactive behaviour. One main area of focus. Often a refuge or hibernation scenario.	An efficiency or productivity-oriented philosophy. Innovativeness and proactiveness drives limited towards a narrow product range.	Cautious diversification into technologies and product markets that are related to the core areas of business operation.	Unrelated diversification into new avenues, areas of expertise, industries and markets. High innovativeness and proactiveness.
Engineering Stance Adopted by Firm	Intrinsic owner-manager knowledge of core processes. Threat of technology obsolescence.	Highly focused towards a limited range of products/services. Either highly routinised or highly specialized.	Two staged approach of grounding the firm in a core engineering process and then launching additional, related activities as off-shoots. Synergies sought.	Owner-managers heavily involved in creating and sustaining diversified value adding activities that are dependent on their innovativeness, knowledge, entrepreneurial flair.
Resource-Based Stance Adopted by Firm	Dedicated but limited resource base. Often high opportunity costs of operations.	Strong focus on skilling and HR structuring, allowing firm to specialize in its core activities. Physical resources dedicated to efficiency enhancements.	Physical resources varied greatly in type, cost. Control strongly exercised by owner-managers on costs, employee skilling, employee performance and the direct employee task.	Moderate to high technology firms with a wide configuration of physical resources. HR with high technological levels of expertise, skills. Flatter structures, centralized.
Organizational Performance	Turnover. Survival. Personal satisfaction.	Financial criteria such as increase in sales, profits and increase in asset value.	Wider variety of measures. Achieving a sizeable customer portfolio, turnover, profits, ROI.	Most elusive. Two main complementary measures: growth in revenues/profits and in the achievement of further competencies.
Firm Size (Average Employee Count)	7.2	15.3	18.3	34.3

Table 6.1: Predominant Characteristics of the Typology of Strategic States

Table 6.1 highlights some important patterns and differences between the four orientations that shall form the basis for the forthcoming discussion. Most evident is the bias of firms towards a *functional efficiency orientation*, with half of the 67 firms adopting this focused orientation. Two statistics immediately stand out when comparing the four orientations; that of firm size, and of the owner-manager configuration. If the four orientations are taken at a continuum, as visualized in Figure 6.9, one sees a consistency in values. Firm size, measured by full-time employee count, ranges from 7.2 to 15.3 to 18.3 to 34.3 when looking at the SBO-FEO-RDO-UDO sequence. Also, members forming the dominant coalition average 1.23 to 1.5 to 1.43 to 2.33 for the same sequence of orientations (to be referred to as the *SBO-UDO continuum* from now on). Thus the closer to SBO orientation the smaller the firm, and the less people controlling the firm. The more complex orientations appear to demand more owner-managers that are directly involved within a dominant coalition. Whilst this may not appear surprising as larger firms have more managerial challenges, it does not necessarily reflect the general reality of business management. Large organizations, even multinational firms, have often been seen to be managed by small top management structures, where the chairman and CEO are sometimes one and the same in order to maximize control over the organization (even if this does go against good corporate governance). When relating this theme to the other typology characteristics, however, an explanation emerges that is particular to the small firm.

Firstly, reference is made to the two stances that complement the *business stance* adopted by the firm; the *engineering stance* and the *resource-based stance*. The engineering stance shows an expected trend for the SBO-UDO continuum, supported by the resource configurations adopted by the different orientations. At the SBO end of the continuum one sees a focus on a core process, with firms working conservatively within the boundaries and confines established over time. At the UDO end firms are heavily involved in creating value where no value exists, that is, working outside the existing firm boundaries. Also, as expected, owner-managers were generally more conservative towards the SBO orientation and more entrepreneurial in behaviour towards the UDO orientation. However, few signs of professional delegation were to be seen as the firms grew in size, in fact the UDO firms showed owner-managers heavily involved in creating, applying and managing the new value adding activities that the firms were diversifying into. Their skills, knowledge and experiences were seen to be vital for this to succeed. A high level of centralization in management was apparent at a strategic level. However, owner-managers were not only making the strategic decisions, but were also being directly involved in coordinating their implementation. Higher levels of technology at the UDO end of the spectrum required owner-managers with better professional qualifications, and with higher levels of drive and self-motivation. These issues now better explain the larger owner-manager configurations; more diversified firms were spreading the substantial, centralized challenges onto a larger dominant coalition. As opposed to delegating to a lower management level the firms preferred to utilize two or maybe three trusted and skilled partners who were knowledgeable, reliable and had the same aggressive drive for business creation. This behaviour may be a result of cultural factors. Malta is often classified as having an 'Anglo' culture, after its deep historic ties with Britain. The 'Anglo' culture is low on uncertainty avoidance and high on individualism (Hofstede 2001), traits very visible in the orientations discussed above.

When looking at industry and environmental considerations once again a pattern is noticed, one that relates well to the discussion so far. Care had to be taken here not to get lost in the excessive detail provided by owner-managers when describing the large variety of industry types, conditions and corresponding environmental situations. The research has delved into many industries available to the small business, only excluding the larger industries such as the heavy engineering industry of transportation, telecommunications, water and energy. Appendix 3 lists the various industries relating to the 67 business cases. Generalizing on industry and competitive conditions was simply not possible. However, a more general comparison could be made regarding the perceived industry/environment dynamism or munificence, that is, from the perception of the owner-managers. This concept of perceived environmental uncertainty is a common one within the literature on strategy and organizational behaviour (e.g. Hendrick 2003; Jauch and Kraft 1986; Yasai-Ardekani and Haug 1997). The logic is that it is not the environmental conditions that count, but how they are perceived and acted upon by the organization. This perceived uncertainty ultimately impacts upon the organization's design and its very actions. Firms that are more towards the SBO end of the SBO-UDO continuum perceived mainly negative environmental conditions and industry settings. Industry competitiveness was increasing, markets saturating, and the government uncaring in its legislative and business support. Firms more towards the UDO end still saw a challenging environmental setting, but also perceived business opportunities within these same settings. The difficulties and challenges were translated by entrepreneurial owner-managers into potential growth through diversification. If one industry was indeed saturated and disadvantaged, they would work to move into another less aggressive industry. This is in agreement with Kisfalvi's (2002 p. 492) observation that "*the subjective* *ways that strategists in general obtain and interpret information about their firm and its environment are crucial for strategy formation*". The concept of environment perception was observed by McCarthy when researching small firms; "*the charismatic entrepreneurs were visionary in the sense that they were able to predict market trends and visualize new product opportunities… In contrast to the charismatic entrepreneur, the pragmatic entrepreneur seemed to make a more realistic assessment of the marketplace: the goal was to set up a business that would have a good chance of succeeding*" (2003 p.161, p. 163). An important link is made here between owner-manager philosophy, perceived environmental uncertainty, and the goals of the business. Thus, to the left of the SBO-UDO continuum we see a perceived environmental determinism, to the right we see various perceived opportunities to diversify and grow. This is highly in conformity with the conceptual model set out in Figure 2.2 of the Literature Review.

Two other comparisons can be made when looking at the characteristics in Table 6.1. The first regards the organizational life cycle and the strategic actions being taken by the differently oriented firms. UDO firms were mainly in growth, RDO firms in growth or maturity, FEO firms at any life cycle stage, and SBO firms mainly in late maturity or in decline/refocus. Strategic actions and moves being made corresponded to these life cycle stages. UDO firm actions focused on growth-related criteria, both in resource acquisition and in competency building. RDO firms were focused on more limited competency/resource accumulation, but more on strengthening barriers to entry for competitors. FEO firms were mainly acting to build efficiencies and competencies in key areas of focus. SBO firms mainly worked to retrench, minimize costs, and prolong efficiency levels. These actions complemented the owner-manager philosophy and industry/environment conditions described above. They also allow for a better understanding of the second comparison to be made, this regarding organizational performance. SBO owner-managers sought revenue, survival, and the satisfaction given by the business. FEO firms were more revenue-focused. RDO firms had a wide variety of measures relating to a more diversified focus. UDO firms were even more elusive in performance measurement, but did generally work towards financial and competency growth.

A final question that remains to be answered regards the congruence (or lack of) between the owner-manager philosophy and the business orientation. A question still remains to be answered; why would owner-managers with more entrepreneurial management philosophies also end up managing more conservative, reactive organizations? This issue is visualized in Figure 6.9, with the direction of arrows to the bottom of the sketch showing this unidirectional orientation. The descriptions provided by owner-managers indicate two reasons; by choice or by situation. Choice was the less common of the two reasons, and occurred mainly when an owner-manager decided to forego his own potential and allow the firm to retract. This was sometimes the case where the firm was in waiting for a new recruit or family member to join the dominant coalition. In other cases the owner-manager was purposely allowing the firm to operate on par with his or her present life status, such as that of near retirement. The following chapter will expand upon this theme, and the influence of opportunity costs on the owner-manager. ‘Situation’ was a different matter; industry and environmental conditions, both internal and external to the firm, had induced a mismatch between the owner-manager philosophy and the business orientation. The term mismatch may be the wrong one, as it has already been argued that an entrepreneurial manager can effectively manage a more conservative organization. This ‘conditioning’ of the owner-manager philosophy has been depicted in Figure 6.9 as a *conditional lens*, redirecting or aligning the owner-manager philosophy with the strategic orientation of the firm. Whilst obviously a simplification, the concept of the *conditional lens* has been used to visualize the redirecting of the bottom arrows in the direction of corresponding strategic orientations. For example, a highly entrepreneurial owner-manager would be conditioned, due to a variety of possible factors, to manage a SBO firm. A somewhat less entrepreneurial owner-manager could be conditioned to manage a FEO firm. A conservative owner-manager would not be suited to manage a UDO firm. And so on.

In conclusion, a closer look at the philosophy of the owner-manager may help explain its link to the orientation of the small business. As argued by Mintzberg and Waters (1982), a change in the strategic direction of the organization will only follow a change in the management philosophy of the dominant coalition. However the literature on this area is fragmented, particularly the literature matching owner-manager characteristics with firm strategic behaviour. Miles and Snow (1978) are a clear exception, and delve deep into management theory to describe defender-style behaviour (Type I behaviour, relating to the Scientific School) as opposed to prospector-style behaviour (Type III behaviour, relating to the Human Relations School). However, even these authors admit that more modern business configurations require newer, updated management theories. Various other authors (Covin and Slevin 1991; Entrialgo 2002; Ling, Zhao and Baron 2007; McCarthy 2003; Miller and Toulouse 1986) have sought to match owner-manager characteristics with firm strategic behaviour.

When referring to the UDO firm's dominant coalition, two traits were evident, traits that appeared to be particular to the different coalition members. There was a visible component of professional management, not unlike the human relations philosophy one would expect. This involved strong organizational, delegation and motivational skills, and professional management with skilled leadership traits. There was also, however, a more heuristic form of management behaviour particular to that owner-manager who was less risk averse, more aggressive and proactive in his or her behaviour. This balancing act was commonly noticed in the more UDO oriented firms, where one coalition member would be the visionary, leading the firm in new and relatively unexplored directions, and the other member/s would work to ensure that the firm adopted the new business ventures in a structured and sustainable manner. This hypothesis can be extended towards the SBO end of the continuum if one were to argue that as the coalition reduced in size from two to one members, missing was the more entrepreneurial component of the team, or arguably less heuristic behaviour in the sole team member. Chapter 7 of the thesis will revisit this theme in more depth.

Chapter 7: The Dynamics of Small Firm Strategic Behaviour. A Trajectory-based Perspective

7.1 Background and Overview of Chapter

The preceding Chapter 6 has provided for an explanation of how the variables to the Framework (see Figure 5.2) established in Chapter 5 act and interact to explain the strategic postures adopted by small businesses. A typology-based approach was used to describe four different states of small firm behaviour; the *small business orientation* (SBO), the *functional efficiency orientation* (FEO), the *related diversification orientation* (RDO), and the *unrelated diversification orientation* (UDO). Firms invariably fell into one of these four classifications, with a focus placed on the firms' present behavioural patterns. The firm's contextual conditions, the strategic actions/reactions taken, and consequential stances adopted have defined which orientation the firm would relate to. However, both the strategy literature and the empirical data obtained in this research agree on an important point; small firm strategy is dynamic, and will change and evolve over time. This means that the four orientations defined earlier do not close the chapter on small business strategy. The grounded theory method of enquiry has allowed for detailed descriptions to be gathered on how the various firms adapted their behaviours over time, in reaction to competitive conditions and strengths/weaknesses acquired, to arrive at their present-state orientation. Explanations so far have emphasized the firm's present form of behaviour, whilst using earlier contexts and actions to provide the impetus for this present behaviour. The trajectory of the firm's changing behaviours over time has been somewhat ignored, as has the knowledge that can be gained from studying it. Corbin and Strauss (2008) in fact argue that it is most difficult for a researcher to keep track of such complex sets of relationships that shift and evolve over time.

The previous chapter has argued that small firms, in the local context at least, can only have one of the four orientations (in other words, there are no others). Logically, a trajectory of firm strategic behaviour should be identifiable that shows firms evolving, or adapting, from one orientation to another. This is essentially looking at the orientations identified in Chapter 6, but also looking beyond (or more accurately, behind) these orientations to see what paths the firms adopted to ultimately arrive at these orientations. Hanks et al. (1993 p. 13) in fact reason that "*if organizations evolve through a sequence of* *stages, as theorized, then in a cross section of organizations, several stages should be represented*". In one of the few empirical studies on SME strategic trajectories it is this exact approach of using established clusters of firm behaviour "*as markers or signposts for the pathways*" (McMahon 2001 p. 202) to be mapped out. A similar argument is placed by Smith, Mitchell and Summer (1985 p. 801) in that "*there are regularities in organizational development and that these regularities occur in such a way that the organization's developmental process lend themselves to segmentation into stages*". It is this concept of strategic trajectories that shall be addressed in this chapter, once again using a typological approach, but this time to map out common trajectory patterns of the firms. Corbin and Strauss in fact attempt to explain this concept of shifting patterns of actions/interactions over time: "*Conditions and consequences usually exist in clusters and can associate or covary in different ways, both to each other and to the related inter/action. Furthermore, with time and the advent of contingencies, the clusters of conditions and consequences can either change or rearrange themselves so that the nature of relationships or associations that exist between them and the inter/actions also changes*" (2008 p. 92).

The approach to be adopted shall follow two interacting and complementary themes. Firstly, the four strategic orientations defined so far shall be used as a basis for structuring and guiding the trajectory-based study. Again, four states of strategic behaviour were evident; *small business orientation*, *functional efficiency orientation*, *related diversification orientation*, and *unrelated diversification orientation*. The logic is simple; since no other form of strategic behaviour was uncovered, then the expectation is that the firms would always act (at a particular time) in line with one of the four orientations. Firms may change strategic states over time (i.e. evolving from one orientation state to another), but would not be expected to deviate from these established states into some new form of behaviour. Secondly, in line with the Strauss and Corbin (1998) strategy of constant comparison and ensuing validation, as the trajectory of each firm is mapped out, the analysis will assess whether the firms' evolving behaviours can accurately be explained by using the four orientations as a basis.

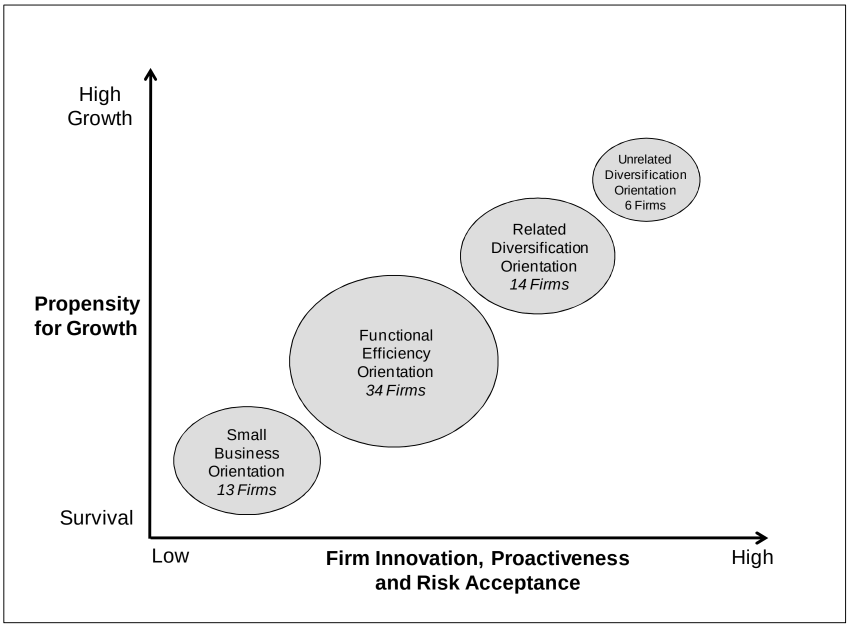


Figure 7.1: The Four Strategic Orientations as a Mapping Tool

Two questions thus need to be answered for this final analysis stage:

1) What previous conditions influenced firms to arrive at their present orientation? Conditions here referring to contexts, actions and the influence of earlier consequences.
2) What additional learning does an analysis of the trajectories provide towards the strategic behaviour of the small firms?

7.2 Analytic Method Adopted

The following analytic method consists of three sequential, but inter-related stages. The first stage has been aimed at mapping out the trajectories of the strategic behaviours of the 67 small businesses. Patterns in the strategic actions of the small firms were sought for, in line with evolving contextual conditions and consequential stances. This is truly Mintzberg (1978, 2007) and Hambrick's (1983, 2003) concept of strategy as a pattern in a stream of actions, guiding an organization in its alignment with the environment and shaping policy and procedure. The method adopted was somewhat of a laborious one, in which each of the individual firms was studied separately. Using the MAXqda *Code Matrix Browser* each individual firm (that is, the transcript of the owner-manager to that firm) was activated, together with the entire category schema. This highlighted a number of areas of high coding intensity for that particular firm. These areas were then reviewed through the *Text Retrieved Segments* function to gain a clear insight into the strategic behaviour of the firm over its various life cycle stages. This was immediately followed by a sketching exercise, where the strategic behaviour of the firm was mapped out by mapping the movements of the firm as it changed strategic posture over time. In the preceding chapter it had already been argued that four strategic orientations were evident, the present mapping exercise taking this one step further by sketching out the movement of the firms as they voyaged over time to arrive at their present-day orientation (that is, the SBO, FEO, RDO or UDO state).

The resulting mapping exercise for all 67 firms is shown in Appendix 9. For each firm a movement of the firm over time was mapped by a series of arrows, and a brief commentary that summarized the strategic behaviour of the firm was included. Also shown in Appendix 9 is a form of comparison between the entrepreneurial behaviour of the firm, the conditional lens, and the management philosophy of the owner-manager, depicted through vertical lines interacting between the themes. This shall be expanded upon in greater depth in this chapter. Once the trajectories of all of the 67 firms were mapped out in this fashion a visual grouping exercise was carried out, aiming to collect the trajectories into common categories of similar patterns. Firms fell into one of five classifications. This mental mapping process is advocated in the literature, and indeed it is argued that the alternative use of multivariate analysis to create taxonomies "*were not substitutes for the mental inductive process*" (McKelvey 1975 p. 511). The five classifications were named in line with their evident meaning, this now forming the basis of a trajectory-based typology. Appendix 9.1 shows the first classification of firms, named *controlled focus*. Firms here were seen to have moved into a functional efficiency mode of behaviour, and were somewhat locked into this behaviour. Fifteen firms fell into this category. Appendix 9.2 shows the second classification of firms in what has been named *contained growth*. Thirteen firms fell into this category that mapped firms moving from a focused business posture to one of limited diversification. The third classification, shown in Appendix 9.3, depicts nineteen firms that had gone through a process of expansion and subsequent contraction. This category has been named *repositioning*. Appendix 9.4 highlights six firms that had gradually expanded and went on to diversify into unrelated industries. This category has been named *dynamic growth*. Finally, Appendix 9.5 shows fourteen firms that had contracted and retracted all the way back into a *small business orientation*, this category was named *retrenchment*.

The table in Appendix 3 goes on to match out the five trajectory-based groups against the SBO-FEO-RDO-UDO cross-sectional typology that was the focus of Chapter 6. A most interesting observation was evident here, one with important ramifications. Reference is made to the following Figure 7.2 that summarizes the comparison shown in Appendix 3. The similarities, and also the differences, are immediately apparent. For three of the four orientations identified in the preceding chapter, that is for SBO, RDO and UDO states, the trajectory-based classifications and the cross-sectional classifications hold a strong match. In other words, firms that had followed a *retrenchment* strategy all ended up in a SBO state (with one exception; firm 16, that closed down as opposed to entering an SBO state). Firms that had followed a *contained growth* strategy all ended up in a RDO state. Firms that had followed a *dynamic growth* strategy all ended up in a UDO state. Implications for this will be discussed in the following sections.

However, Appendix 3 and Figure 7.2 highlight an important difference between the cross-sectional and trajectory-based typologies, this difference pertaining to the cluster of firms identified earlier on as operating in a *functional efficiency orientation* (FEO) state. This cluster had been the largest by far, for which 34 of the 67 small businesses were identified with. Figure 7.2 illustrates that these FEO firms came from two distinct trajectories; 15 firms following a *controlled focus* strategy and 19 firms following a *repositioning* strategy. The rational and implications of this shall be discussed in the following sections. It is, however, pertinent to observe that the trajectory-based typology provides a better spread of small business orientations than the cross-sectional states (as visible in Figure 7.2), enhancing its descriptive capability. Furthermore, none of the learning applicable to the cross-sectional typology (summarized in Table 6.1) has been lost, as the four orientations will be shown to be no more than life cycle states, with firms moving from one state to another in a set of common, observable patterns.

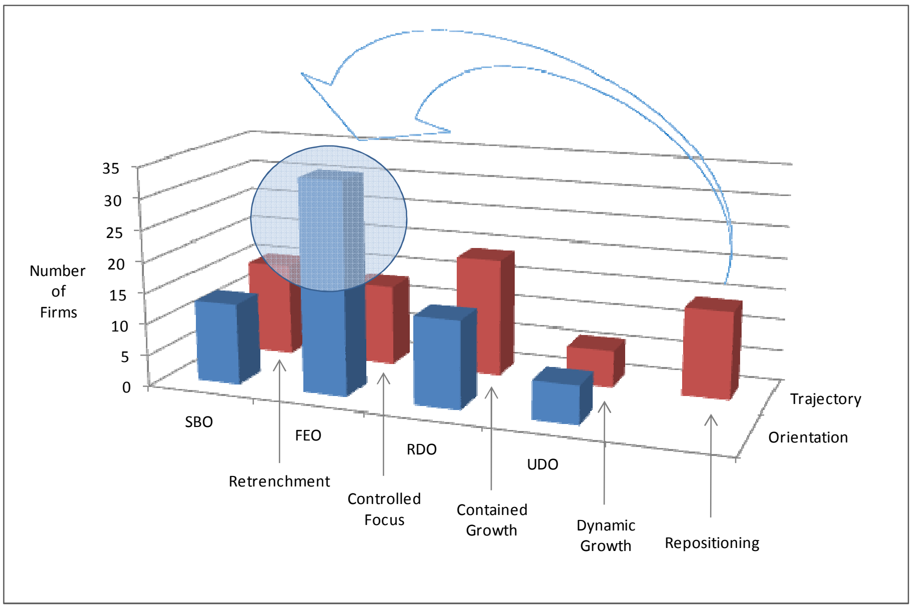


Figure 7.2: Comparison of Cross-sectional Typology to the Trajectory-based Typology

It was previously mentioned that the analytic method adopted in this chapter covers three sequential stages. The first stage; that of mapping the small firm trajectories and placing into a typology, has been described above, summarized in Appendix 3, and depicted in Appendix 9. A second analytic stage followed this first one, and served to analyze in more detail the five categories found within the trajectory-based typology. The following sections shall proceed to discuss the rationale, actions and behaviours of the firms found within the different trajectory-based clusters. MAXqda, particularly the *Code Matrix Browser* and the *Text Retrieved Segments* functions were used to assist in this exercise. In particular, three conceptual categories were analyzed in greater depth for the five different cohorts of firms. These were: a) most importantly, the firm's strategic actions and reactions taken over time; b) the historic start-up situation; c) the owner-manager characteristics.

The third analytic stage has utilized the financial records of the small firms that were made available from the office of the local financial regulator. For this purpose a 'registered user' permit was obtained from the regulator, giving access to the database of limited liability companies registered in Malta. For each firm (that is for those firms that had accessible records) two sets of records were purchased. These consisted of the latest financial statements available (usually for financial years 2008 or 2009) and the statements for the financial year that was five years prior to the final financial year. The regulator's financial records went as far back as 1998 for some of the firms, but a decision was taken to look back to 5 years in order to acquire data on as many firms as possible. Notwithstanding this, complete data (going back 5 years) were only available for 48 of the 67 small businesses. Reasons for inaccessibility of the remaining firms were as follows; a failure of the firm to register its financial statements (4 firms; firms 23, 57, 61, 63), a failure to locate the firm in the regulator's database (2 firms; firms 14, 16), businesses not limited liabilities (3 firms; firms 8, 19, 22), and firms not having a full five years of financial data (10 firms; firms 6, 9, 18, 27, 32, 36, 42, 46, 55, 62).

Analysis of the financial records provided a range of ratios, such as the liquidity ratio, the capital structure ratio, return on equity deployed, net asset value and net asset value (NAV) fluctuations. After an in-depth analysis of the various ratios it was decided to focus primarily on two key indicators; the firm's final net asset value and its NAV fluctuations. The net asset value provided an indicator of the size of the firm, and was a useful comparator to the full-time employee count used earlier on to measure firm size. NAV fluctuations gave a clear indication of the growth pattern of the firm, incorporating both investor equity and retained earnings. Three NAV figures were used here for the 48 firms that had a complete data set. These were for the final year (say 2009), the preceding year (2008), and a value that allowing for a 5-year comparison (2005). Values were normalized by dividing all three values by the final-year value. This gave three indicators, with the final indicator being the value of 1 that all the firms in a cluster would converge to. Graphical analysis highlighted variances in the patterns that were evident for the different typology clusters. This shall be discussed in more depth in the following sections. This financial analysis was imported into MAXqda as, in the words of Glaser (1998), all is data.

7.3 Small Firm Strategic Behaviour: A *Controlled Focus* Trajectory

As shown in Appendix 9.1, a total of fifteen small businesses displayed a strategy of *controlled focus*. In general this meant that these fifteen firms had never really gone beyond a *functional efficiency orientation*, having worked their way into, and being somewhat locked within, this form of strategic behaviour. The following Figure 7.3 illustrates the trajectory observed for firms with this behaviour. Firms would start off in a FEO state or move into the state from an earlier SBO state. Firm size would fluctuate within this *functional efficiency orientation*, with the businesses' engineering stance heavily focused on one core product or activity.

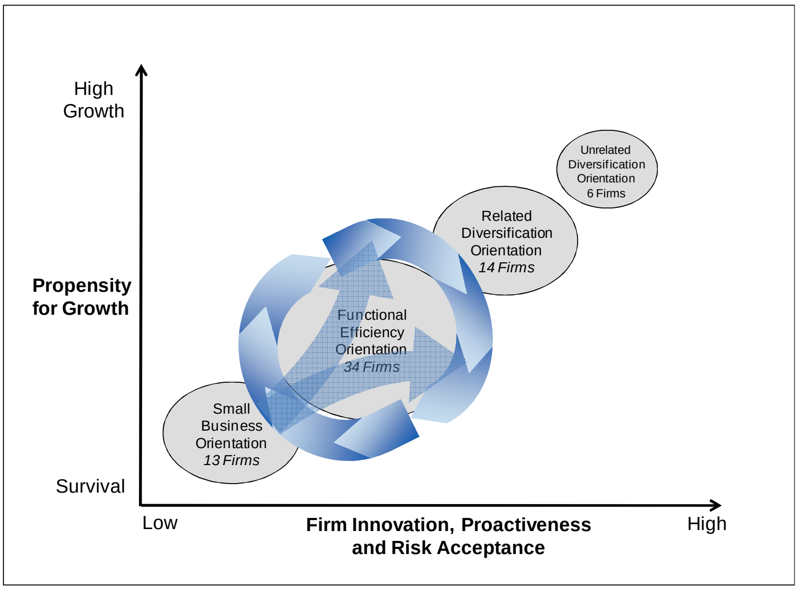


Figure 7.3: *Controlled Focus* Strategic Trajectory

A quick look at the statistics for this group of firms is in order (summarized in Table 7.1 below). Average coalition size was at 1.53, meaning usually one or two owner-managers. The firms were the smallest, asset size, and second smallest when considering employee count. An interesting picture emerged regarding the average age of the firms in question, highlighted in Figure 7.4 further on. These firms were, on average, the youngest of all, with an average age of 14 years. This provides somewhat of an explanation for the lowest net asset value (NAV), as the NAV of a firm would normally grow over the years as retained earnings cumulate into a final value.

Trajectory Type	**Final Orientation**	**Number of Firms**	**Average Employee Count**	**Average Members in Dominant Coalition**	**Average Firm Age**	**Average Net Asset Value (*Final Year €*)**	**Average Liquidity**	**Average Gearing (*Outliers Removed*)**
Controlled Focus	FEO	15	12.00	1.53	14	173,423	139.0%	-9.3%
Contained Growth	RDO	13	18.15	1.38	21	583,505	166.3%	23.0%
Repositioning	FEO	19	18.58	1.53	28	656,508	383.5%	49.9%
Dynamic Growth	UDO	6	34.33	2.33	18	1,368,630	132.0%	33.2%
Retrenchment	SBO	14	7.21	1.21	27	307,773	314.6%	32.1%

Table 7.1: Summarized Statistics for the Trajectory-based Typology

Average liquidity shows firms that had no significant cash-flow problems, whilst the gearing ratio (capital structure ratio) indicates firms that were not prone to growth through long-term debt. Both the age and the financial records of the 15 firms appear to indicate fairly young firms that had purposely chosen to target and specialize within one core area of operation. This viewpoint is complemented by the FEO characteristics that had been summarized in the earlier Table 6.1, and also corroborated by an analysis of the NAV fluctuations for the firms in question over the years. Figure 7.5 shows a graphical analysis of the firms' NAV fluctuations over the most recent 5-year period. Figure 7.5b is an edited version of Figure 7.5a in which the visible outlier, Firm 12, has been removed to enhance the comparison (this approach will be repeated for the remaining trajectories). The trends show firms that are slowing down in growth, and even contracting towards the final year, a picture that is supported by the firms' unwillingness to go for high gearing. The firms' **historic start-up situation** (analyzed through MAXqda's *Text Retrieved Segments* function) revealed firms that had been built upon the previous experiences and backgrounds of the founders, who were now the owner-managers. An example of this is a quote provided by a company manufacturing and retailing paints (Firm 64):

> *There were three, three directors. They met and opened up the business between them". (Did they have a knowledge of the particular industry)? "Well, two were on construction and finishes, and the other used to work with one of them". (So as such it was a new industry for them), "they extended somewhat from construction and painting, so they redirected towards paint.*

A second example (Firm 9) comes from an engineer who had spent his life working for a manufacturing company within the quality control department. His knowledge of the industry, the processes, and an understanding of the market pushed him to open up a company focused solely on quality testing, and actually providing a service to the company that had employed him in the beginning:

> *Towards of my work experience I used to work at (name of a firm mentioned), and at that place there was certain work that was being sent to Germany for work inspection to be carried out, because the German customers wanted it that way. I had gone up to Germany to see what they were doing over there, and I was of the opinion that there was nothing that we couldn't do in Malta.*

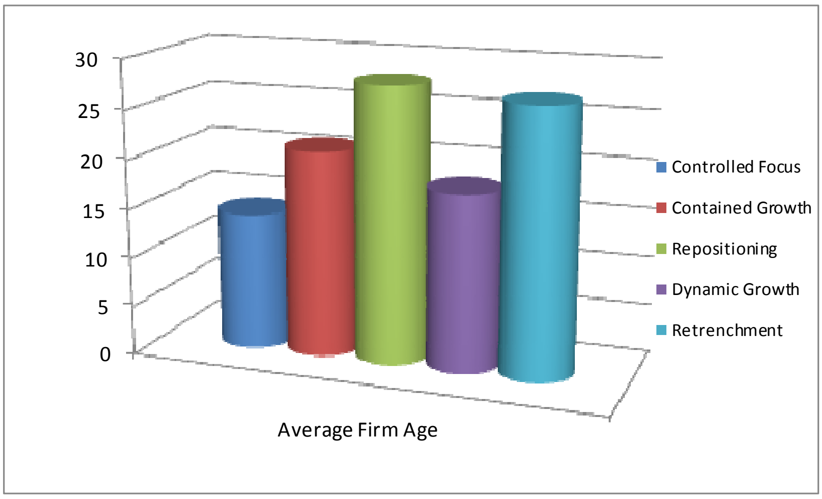


Figure 7.4: Average Firm Age for the Trajectory-based Typology

Owner managers perceived the existence of a market, very often a niche market that they could serve given the skills they had and their love of the job. In fact, there was an evident pride on part of the owner-managers to have created a firm based upon what they knew how to do, and evidently enjoyed doing. The following quote, to this effect, comes from the owner-manager of a software development firm (Firm 55):

> *I have been in computers since 1980, to be precise 1978. Before 1978 I used to take an interest, I was still at school those days. Myself and my friend started, I think, the first singe board computer in Malta. We are proud of this. I remember, by today's standards it was insignificant. And I remember we had taken it to an exhibition, and everyone had been amazed with this computer. And computers were always something that I loved.*

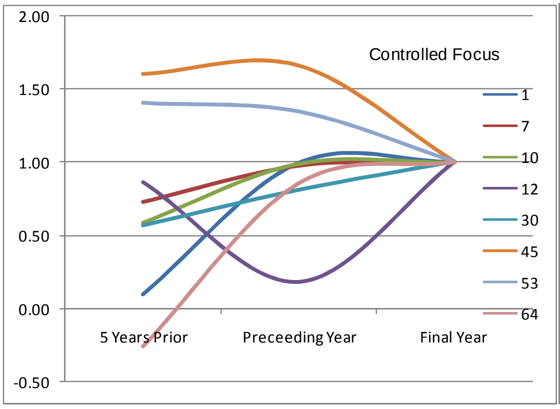


Figure 7.5a: NAV Fluctuations for the *Controlled Focus* Trajectory

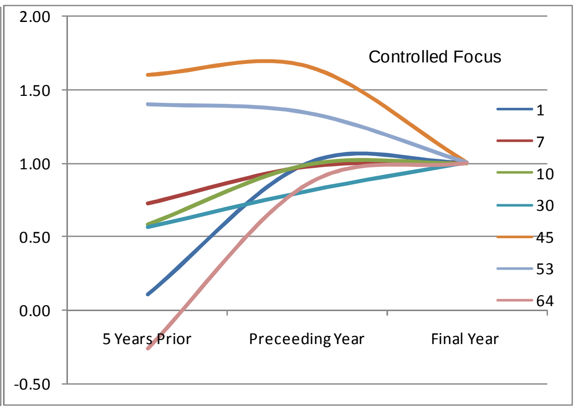


Figure 7.5b: Edited NAV Fluctuations for the *Controlled Focus* Trajectory

Following the review of the historic start-up situation, MAXqda's *Text Retrieve Segments* was directed towards the **strategic actions/reactions** that the 15 firms had taken over the years. Evident was the fact that the owner-managers had perceived a less competitive environment in the induction years. Knowledge of the value adding processes that the industry demanded, together with previous experience in operating within the markets concerned, had allowed the owner-managers to effectively carve out niche markets required to provide them with a client base for their companies. The firms in question were predominantly service oriented (11 of the 15, as summarized in Appendix 3), with a far stronger focus on local markets than foreign markets. With less than a half million inhabitants this automatically suggested market limitations, either earlier in the firm's life cycle or later on as industries matured. An interesting issue was the fact that the firms were in various stages of their life cycle, some in growth, others in late maturity. This may be more understandable when looking at the ages of the firms (Appendix 3), as some firms were less than five years old whilst others were over thirty years old. One question needs to be asked, however; why were there no *controlled focus* firms that were more than 35 years old? Three possible answers are apparent; the sample size did not allow for a sufficient variety in age, or with such a controlled focus in a limited market firms cannot survive for long stretches of time, or the firms would evolve into a different trajectory over time and in the right circumstances. More will be said about this later on.

Also, the standard life cycle concept was less applicable to the small firms in question than to their larger counterparts. Some of the firms appeared to be within what has been called the *loop-within-a-loop* life cycle, expanding and contracting as projects came in or major clients were serviced. When asked directly whether he felt that his firm was in growth, maturity or decline, the owner-manager of a systems provider firm (Firm 7) had the following to say:

> *We offer different products, so each product has its own life cycle. And each product makes a difference for our company. If you have an Lm100, 000 turnover and you had to make a Lm100, 000 project, that's, on its own, a year's turnover. So really and truly, from my experience when you're analyzing a small company like mine, the stages are very misleading.*

The **strategic actions/reactions** category revealed a number of aspects regarding the actions taken by the firms to compete over the years. The engineering stance adopted by the firms was always specialized, and even more fine tuned to be so over the years. The main objectives appeared to be efficiency and expertise. For the operations-based businesses (firms 9, 10, 12, 30, 36, 53, 55, 64) this was carried out through building dedicated resources, skilled expertise, and somewhat mechanistic engineering functions. In some cases high levels of automation were applied to achieve this aim, whilst in others routine manual operations were adopted, such as in the manual sorting of O-rings to test for quality (Firm 9). Organizational structures tended to be fairly flat, thus reducing excess bureaucracy and enhancing the owner-managers' span of control. For the more project-oriented businesses (firms 1, 7, 8, 22, 42, 45, 62) this was carried out through a number of integrated means; through standardization, by building a template for operations, by refining and improving upon this template over the years, and by adapting the template to the project/s at hand at the time. This does not mean that the firms were inflexible, rather that the flexibility was bounded in favour of efficiency of implementation. Two quotes are given below, the first for a more project-oriented translation service firm (Firm 62) and the second for a more operations-based garage door manufacturer (Firm 53):

> *(Question: The fact that you are proof reading is an additional expense. Does the customer appreciate that?) Good question, good question. I think, OK it all depends on the client, but very often I find, as standard because we have a lot of international clients. So, our prices are still very competitive, but obviously there is that extra cost. I am very open about it. And it is standard. We are very, very inflexible about it. It's very, very rarely that we even think of not proof reading, especially if it's a language that we are not sure of.*

> *(Question: Is there a high element of expertise to make the door, high skills?) Not so much, no. This is because the machines we have are all computerized, thus if the employee has, say, basic literacy, he knows what a control is, if he can take measurements, if he is of basic intelligence, he will be able to take on the job. But you have to be careful, if you have a measurement, say 3 metres, you do not go for 2 ½. A bit of attention is needed. (So the employee really needs to be dedicated and focused on the job?). Other to that, by time he will adapt, say two months.*

Irrespective of the type of activity, owner-managers seemed to understand their customer needs all too well, and essentially built their operations to revolve around these needs. Building brand identity and maintaining this identity was continuously high on the agenda. In most cases, the older firms in the cohort were experiencing increasingly competitive scenarios as industries became more saturated, earlier competitive advantages were eroded, and the competitive landscape evolved. This enhanced competitiveness and more dynamic industry conditions was being counteracted by the firms with renewed efforts to excel in a particular product or service, in an attempt to sustain the barriers of entry that had been created earlier on. The owner-manager of Firm 62, specializing in translation services, explained how the firm had adopted a policy of rigorously proof-reading translated works in a bid to provide an unparalleled level of service to customers. The owner-manager of Firm 45 (engineering services) described how the firm was increasingly being faced with less work, and how they had decided to specialize predominantly on the marine industry, supporting this by cutting costs and by stocking in key materials not readily available to competitors. The owner-managers of Firm 53 that manufactured and installed garage doors explained how they only used top quality metals and fixtures to try and retain their market share in an industry that was increasingly being tapped into by operators working without a business permit and under-cutting the market. The following quote was provided by the firm:

> *Well. Understand me. Anything that can affect the purchasing power of clients will affect you. This is because, if I am making a door at, say 2.5 metres by 2.5 metres, and I am making it at a price of, for example, 100 pounds, and he can go to someone else who gives it to him at say 95, he will say 'I have a door, I have closed off my garage', and that's it. Now, sometimes they will not take notice of the fact that the door is thicker from behind, or has slightly thicker material. It is as long as they have saved that something. Now, everything that affects the price will affect our sales. (If you have a consumer with less purchasing power, will material cost be decreasing?). Metals are increasing a lot in price. (So price if iron is going up, clients are trying to cut down, does this not create quite a difficult situation?). Yes. In fact it is a very difficult situation. At the moment it is very difficult. Very difficult.*

This leads to the first of three propositions that will be stated for this particular form of strategic behaviour:

<u>**Proposition 1:** Younger, smaller firms often adopt a *controlled focus* strategy that looks towards competency building in one core activity/process, a strong owner-manager knowledge of the industry and skills in the firm's key engineering processes, and a strong client dedication within a limited consumer market.</u>

Delving into the **owner-manager characteristics** category one sees firms that are being managed by persons of strong values, determination and drive. Integrity in actions and responsibility towards stakeholders, both within the company and outside, were deemed to be important criteria. Also repeatedly mentioned was a financial focus, that is, a focus towards company revenues. This is not in conflict with the integrity drive mentioned before, and in fact helps to explain the focused management philosophy of the owner-manager. Two quotes are provided below that demonstrate this owner-manager integrity, one for an engineering firm (Firm 45) and the second for a printing house (Firm 30):

The price will not be put down in order to do a bad job. Better not do it at all. (but wouldn't others skimp on the price in order to get the job?). let them have it! it is an advantage to us, because the client will come to us afterwards.

I believe in three values; integrity, quality, and discipline. And apart from that I believe in perfection. Unfortunately I am a perfectionist (laugh), so it adds on to the quality we expect. (Does it pay off ultimately?). It might pay off to the client, but it will not pay off with me. Because I worry a lot. But yes, at the end it pays off with the client.

It had been queried earlier on why firms following a *controlled focus* trajectory did not appear to reach the older ages seen in the other categories. The owner-manager characteristics may provide an important clue here. Appendix 9.1 shows the strategic fit between the firm entrepreneurial behaviour and the owner-manager entrepreneurial – conservative stance, moderated by the conditional lens. Taking the oldest group of *controlled focus* firms, those having exceeded 30 years of operation (Firms 8, 45 and 53); one notes that there is an evident strategic fit between the entrepreneurial behaviour of the firm and the owner-manager management philosophy. This can be seen by the horizontal lines matching the firms' orientation with the owner-managers' management philosophy. In other words, for these three firms there is no initiative by the owner-managers to drive the firms into more entrepreneurial behaviour, such as into diversification. The owner-managers moderately conservative stance suited the static engineering stance adopted by the firm. Two quotes that demonstrate this less assertive and less risk-oriented philosophy come from the owner-managers of Firm 45 and 53:

You have your wage. Do your work as you are supposed to. I will do my work as supposed to.

First of all I am not alone here. So I cannot enforce my beliefs. I can have my say, let me put it that way, but I cannot say… I cannot enforce something, there must be a certain discussion.

Younger firms had different levels of match (or mismatch) between the firm entrepreneurial behaviour and the owner-manager philosophy. Whilst some firms appeared to be managed by more conservative owner-managers (i.e. firms 1, 9, 22, 30, 42, 62 and 64), others were being led by owner-managers with visibly stronger entrepreneurial tendencies (i.e. firms 7, 10, 12, 36 and 55). Quotes from the owner-managers of firms 10 and 12 indicate this more entrepreneurial behaviour.

I think you have to be very passionate to work in this business because it's a very fast business, that's how the name came about...

You must be a bit of a risk taker as well in business. As you might have noticed I am involved in many businesses, not just here. This is my base. To be successful in a number of businesses obviously you need to have certain business acumen... you need that without fail.

This concept of convergence of firm age with management philosophy could well mean that as firms matured those firms with an existing match between the firm behaviour and the owner-manager philosophy would grow old as *controlled focus* firms, whilst those with a mismatch (owner-managers more entrepreneurial) would either die out or evolve into a more growth-oriented trajectory (soon to be analyzed). The conditional lens would determine the success or failure of these more entrepreneurial owner-managers to adapt their firms to a different strategic orientation. An example is a laboratory firm (Firm 36) that was strongly focused on one core activity, but with the owner-manager aware that the local market was too small to sustain the firm in this way. The owner-manager was attempting to overcome his own limitations (and was reading for a degree in business) as well as the industry limitations by diversifying into related areas of expertise but in entirely new markets:

We have tried (to diversify). But we do not yet know what competition is coming. We are considering going into (a new business line mentioned). But we are not yet sure of the market. We need to see if it is worth it or not. (Would you approach this in a cautious manner?). Well, once you have made your decision then you go for it. You get going because it is always the same, it is a major investment. We cannot invest piece meal, you need to build the capacity at one go… once you have decided. It will involve a large amount of capital.

In conclusion this means that the *controlled focus* trajectory is either a means to itself for firms that remain focused on a core activity/process, or solely a temporary state for firms that ultimately adopt a more entrepreneurial form of behaviour. Implications are various, not least of all from a profitability perspective, as shall be shown when the NAV growth that is depicted in Figure 7.5 is compared to that of other trajectories. However, performance and profitability for small firms are two entirely different matters. The more conservative owner-managers may be more than happy to follow a *controlled focus* trajectory, allowing them to achieve from the firm what they consider to be true performance. This leads to two further propositions for the *controlled focus* trajectory:

Proposition 2: Firms that adopt a *controlled focus* trajectory view performance in terms of increase in financial criteria, such as achieving stable revenues, and non-financial criteria particularly customer satisfaction and quality of service provided. These firms will have a very low growth and the lowest net asset value of all.

Proposition 3: More entrepreneurial owner-managers will adopt the *controlled focus* strategy as a temporary state whilst more conservative owner-managers will permanently adopt a *controlled focus* strategy.

7.4 Small Firm Strategic Behaviour: A *Contained Growth* Trajectory

Appendix 9.2 depicts a total of 13 firms that demonstrated a strategy of contained growth. What this means is that the firms in question had evolved from an earlier, more focused stance into a behaviour of controlled growth and expansion. These firms would all have ultimately entered and settled into a *related diversification orientation* (RDO) state (as shown in earlier Figure 7.2), meaning that there was a cautious diversification into technologies and product markets that were somewhat related to the earlier core areas of operation. Table 6.1 in the preceding chapter summarizes the RDO state, with the focus in this section being placed more on the trajectories of the firms in order to avoid repetition. The following Figure 7.6 summarizes Appendix 9.2 to show a mapping of the general trajectory of these 13 firms.

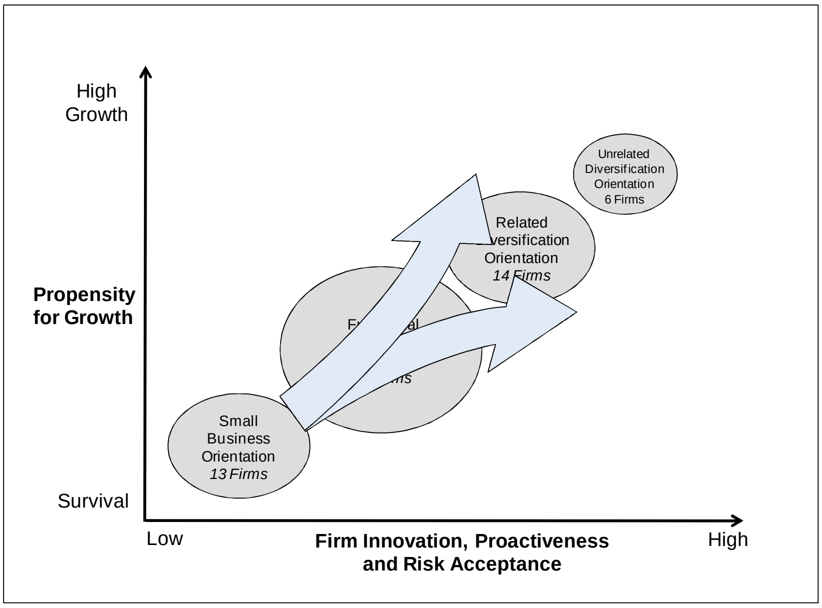


Figure 7.6: *Contained Growth* Strategic Trajectory

A quick review of the essential characteristics of these firms is in order, as summarized in Table 6.1 in the preceding chapter. Owner-managers will have entered into industries in which they are adequately knowledgeable, industries that ranged from young and munificent to more dynamic and competitive. The owner-managers invariably boasted a wide range of skills, experiences and qualifications. The businesses were mainly in growth or early maturity, with a diversity of ages ranging from 3 years to 50 years. The owner-managers were seen to be deploying a two-staged strategy of first grounding the firm in a core engineering process, and then launching additional, related activities that were complementary to this core process. There was a wide variety of physical resource deployment within various business settings, and owner-managers were seen to exercise a strong direct control on costs, employee skilling, employee performance, and employee task.

An overview of the statistics of these 13 firms gives some insight into their strategic behaviour. The earlier Table 7.1 shows that the firms are averagely sized, both in employee count and in net asset value. The size of the dominant coalition is on average 1.38, meaning between one to two members (more often one than two). The average firm age is 21 years, with the older firms exceeding 40 and even 50 years of age. Only one firm was less than 10 years old. Financial ratios showed a healthy liquidity and a moderate gearing.

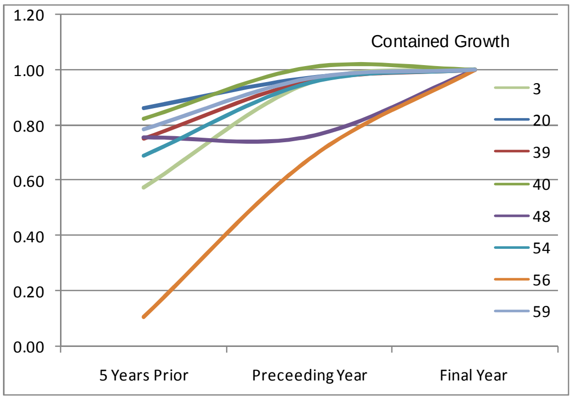


Figure 7.7a: NAV Fluctuations for the *Contained Growth* Trajectory

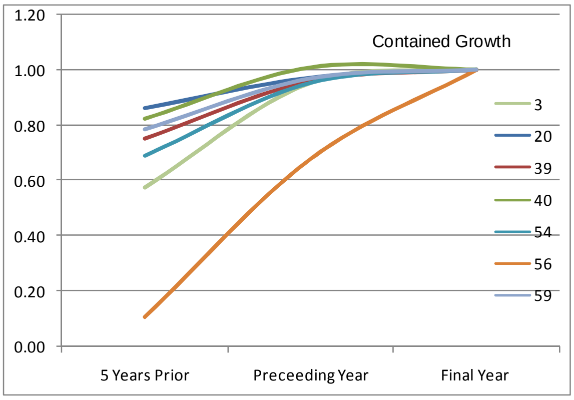


Figure 7.7b: Edited NAV Fluctuations for the *Contained Growth* Trajectory

Figure 7.7 above looks at the NAV fluctuations of these *contained growth* firms over the years. The firms are evidently in growth, even though the gradients are leveling out somewhat towards the final years. Nevertheless, the NAV growth for these firms over the last year was at nearly +8%, compared to a -7.5% for the *controlled focus* firms described earlier on. The individual firm analysis shown in Appendix 9.2 depicts an owner-manager entrepreneurial philosophy on par with, or in excess to, the moderately entrepreneurial behaviour of the firm. As in the previous section three categories shall be analyzed in further depth, aiming to provide a further understanding into the trajectories of these firms. These are once again the *historic start-up situation*, the *strategic actions/reactions* taken by the firms over time, and the *owner-manager characteristics*.

The firms' **historic start-up situation** showed firms that had start-up criteria not unlike those of the *controlled focus* firms. Owner-managers would have either been inducted into the business at an early age, or would have used their skills and knowledge of the industry to craft a company at later stages in life. The skills, experience and qualifications of the owner-managers were apparent, more so than for those of owner-managers of *controlled focus* firms. Again, industries were less saturated in the start-off years. A quote to this effect comes from the owner-manager of Firm 63, a business that started off specializing in the manufacture of leisure sea craft:

> *(And in 1983, was there a reason for that industry, that sideline, maybe the experience?). Well, basically, there was the demand for fiberglass products those days. They were not imported at all. Even boats, for example, it was not feasible to import boats from abroad those days. So there was a larger market for that type of production. That was the main aim.*

The firms mainly started off from a FEO, as opposed to an SBO, stage. This means that the businesses were professionally created from the start, and not as some form of part-time venture (one exception to the case is that of Firm 56 where the business did indeed start off as a part-time venture). A strong business focus, tied down with qualifications and expertise, characterize the start-off state. Two quotes are provided below showing these traits, the first from the owner-manager of a stone masonry firm (Firm 39) and the second from the owner-manager of a firm providing IT equipment and services (Firm 14):

> *(How long has the company been in existence?) As a company we have been since 1995, but before that we were partners and had commenced in 1981. Before we used to be stone masons with my father. I spent 8 years working in the construction industry. And that is the advantage that we have. We have the mason's license. We have worked and experienced stone, concrete constructions, structures… we have 8 years experience. Then we switched over to this work… so when the builder comes we know, from scratch, what they want. Even if we are talking to an architect, the knowledge of the technology is there.*

> *It was a company owned by my father. Then myself and my brother started off, we are both engineers, electrical engineers. First I started off because I had graduated in 1992. In the meantime my brother had assisted, he then graduated in 1997, and then we started off on this work*

The **strategic actions/reactions** category identified a number of actions being taken by the 13 firms over the years in a bid to build and sustain competitive advantage. None of the firms appeared to be in decline, predominantly being in growth or in early maturity. As mentioned before, the general competitive approach of the firms was to first build expertise in one core activity or process, and then develop competencies in related areas but in different markets. As competencies grew and synergies gave the firms a competitive edge some of the firms became somewhat more selective in the customer base they chose to serve, going for a higher end, better paying customer. Examples of this specialization – controlled diversification approach are various. Firm 3 started off solely in agriculture but then diversified into the heavy engineering industry, particular the water sector in which they already held some expertise. Firm 14 initially started off in PC repair and retail, but then diversified into industrial uninterrupted power supplies, printer/toners, CCTV, and security systems. A quote from the owner-manager of Firm 14 shows this approach towards a somewhat cautious, related diversification:

> *Nowadays we are not just on IT, we have now developed into other branches, because we carried out a certain amount of diversification. We always remained focused on electronics, but nowadays we are also focused on security, not just on IT.*

Often owner-managers were seen to be quite innovative in their approaches towards developing new lines of expertise and in penetrating new markets. An example of this is Firm 56 managed by a husband-wife team, where the husband took care of operations and technical product development whilst the wife managed the more administrative side of the business. Initially the firm had started off by building an expertise in commissioning seamless flooring, mainly focusing on large commercial and industrial clients. The firm went on to develop a material that was an off-shoot to the flooring compounds used, and was particularly applicable as a water-proofing membrane ideal for the local climate. The following quote by the owner-managers expands upon this theme:

> Eventually… it is myself and my husband who work as directors in the company. Through his entrepreneurial skills he got to know things, and we eventually moved on. It started from one of the glues that we used to use on the (*name of product mentioned*). We developed a product, and said 'this is really good for waterproofing', and we developed it for the Maltese market.

The actions taken by the firms to widen their competency basis were well thought out, allowing the firms to build competitive advantages that were difficult to emulate. Resource deployments were applied that were often inimitable and unsubstitutable, allowing for what Dierickx and Cool (1989) would call a 'privileged asset position'. In fact, these *contained growth* firms were doing no more than what has been advocated within resource-based theory for a long while. As Wernerfelt (1984 p. 175) aptly argues; "*firms need to find those resources which can sustain a resource position barrier, but in which no one currently has one, and where they have a good chance of being among the few who succeed in building one. They have to look at resources which combine well with what they already have and in which they are likely to face only a few competitive acquirers*". One example is Firm 54 that initially boasted one core activity; stock control point-of-sale systems. The expertise of the owner, coupled with his experience and knowledge of the industry, subsequently allowed him to carefully diversify into the industrial PC market, equipment recycling, point-of-sale equipment, and different IT-related applications. Another example is that of Firm 48 where the owner-manager gradually enhanced existing product lines with additional services and products, such as commissioning and calibration. Of interest to note is that this equipment importer/retailer firm was still adding product lines and related service activities after 15 years of operation, and saw his firm to be positively affected by the existing economic situation as weaker companies floundered and their customers were distributed amongst the survivors. The following quote by Firm

63 shows how this particular firm intelligently tapped into different levels of the industry's value chain in a bid to build and sustain competitive advantage:

We basically go into sports boats, powerboats, and sport rafts. What we do not go into is sailing boats. This is because it is not our line, and we do not have the facility to go into that work. Plus there is a big competition from yachting yards. I do this work only and they do not do our work, so… we do not go into it. And we try to be as much as possible vertically integrated, because if we say 'let us do this job', we also try to get our own supplies. We source them out ourselves, as much as possible being vertically integrated, such that we say 'I have a piece from here, a piece from here, a piece from here'. Put the whole picture basically, and you get your returns, decent returns.

The issue of whether to enter foreign markets was a common one, obviously high on the agenda of many owner-managers as they perceived local markets to be very much of a zero-sum game. Not unlike the earlier *controlled focus* firms the focus of the *contained growth* firms was primarily on local markets. Many of the firms had an export function or were carrying out work abroad, but this rarely contributed to more than a minor percentage of total sales. There were healthy spill-offs though, as the exposure allowed the firms to develop additional competencies, both technical and in support areas such as in marketing and servicing. The additional sales also acted as a buffer in times of low local demand. Many of the firms had tried some form of internationalization, with varied, but usually limited, degrees of success. Firm 3 tried, and failed, to gain a foothold in North Africa when it attempted to tap into the construction industry there. The owner-manager of Firm 32 did not perceive establishing a base in foreign markets to be one of choice, but of necessity. The perception of the highly qualified and experienced owner-manager of this architectural firm was that the local market had become excessively saturated. His firm, although having diversified into four related architectural activities, was losing ground to low cost one-man architectural start-ups. Although earlier attempts at internationalization had failed, the owner-manager said this about the company's future prospects:

The concept (growth) has been there since 1995. It might have its setbacks. I have had setbacks… in Libya it was a setback. Probably because I wasn't managing the company myself, I was a technical director. And I would have done things a lot differently to the way they were done... I believe the only way for growth in our sphere is basically to go overseas. So unless one gears up for that… one will not survive.

As described in Chapter 6, organizational structures deployed by these *contained growth* firms were generally flat but were still predominantly mechanistic and centralized in operation. Strong controls were exerted by owner-managers on employees, backed by the owner-managers' intrinsic knowledge on the firms' engineering processes. The factors described until now allow for a first of three propositions (numbered 4, 5 and 6) to be made for these *contained growth* firms:

Proposition 4: More professional firms often enter a *contained growth* strategy that consists of a two-staged approach of first specializing in a core competency and then diversifying into moderately related activities and markets. This allows for the creation of differentiated products/services and a more select consumer base. Owner-managers are multi-skilled and exert strong control over the firms' resources.

Performance criteria of importance described by respondents seemed to tie down to three integrated concepts. Firstly there was a strong focus on sustaining and growing relative market share, of enhancing the customer portfolio either quality or quantity-wise. The second performance criterion regarded providing a differentiated product/service, high quality standards and an ensuing brand identity that would allow the firms to win and retain customers. In other words it was important for the firms to build a viable customer base (first criterion) and also important to know how to retain and grow this base (second criterion). The third criterion was more of measurement, that is, what measures were important to the owner-managers to allow them to make intelligent strategic decisions. Measures mentioned were predominantly financial, such as turnover, expenditure, profit, and return on equity. The financial analysis carried out earlier shows firms in gradual but stable growth, with average net asset values increasing by 33% over a five year period. This leads to a second proposition:

Proposition 5: Firms following a *controlled growth* strategy will look towards three performance criteria: enhancing the client portfolio; sustaining a strong customer base through a differentiated product and strong brand identity; and a varied range of financial measurements. Firms here have a moderately large net asset value and stable NAV growth.

Finally, the level of strategic fit between the entrepreneurial behaviour of the firm and the management philosophy of the owner-manager shall be discussed. Appendix 9.2 illustrates this concept for the 13 individual firms in the *contained growth* category. Already argued is the issue that the firms invariably demonstrated a moderate level of entrepreneurial behaviour by following the *contained growth* trajectory. However, once again, there was no automatic match between the behaviour of the firm and the management philosophy of the owner-manager. Whilst firms 20, 48, 54, 56, 63 demonstrated strong congruency between the orientation of the firm and the philosophy of the owner-manager, for the remaining 8 firms the entrepreneurial spirit of the owner-managers was observed to go beyond that of the firms. Understanding the logic of this situation is important as it could explain, for one, whether the firms would stop at an RDO state or possibly develop further into a UDO state. Particularly, the concept of the conditional lens shall be used again to attempt to understand the apparent mismatch. Looking at the 8 cases individually it appears that two particular factors, one organizational and the other individual, act within the conditional lens to limit any higher levels of entrepreneurial behaviour by the firms. Four of the 8 firms (3, 18, 32 and 61) appeared to be conditioned by organization–environment limitations. The firms in question had built a certain momentum, certain resource configurations, that made it difficult to move out of the dynamic and sometimes aggressive environmental conditions that the firms were operating within. The firms would have to build new and somewhat unique resource configurations, and time, finance, additional knowledge and a redirected focus would be required for this to happen. This may be one reason why UDO firms were seen to have a larger dominant coalition with stronger academic qualifications. The following quote by Firm 3's owner-manager demonstrates this difficulty in finding a way out of a highly competitive situation:

> *In our case a simple push-fit plumbing system there are at least twenty competitive brands for one product line, and that goes to show that typically everyone has a five percent market share. And with a five percent market share you cannot really invest in middle management.*

Possibly more difficult to overcome than the organizational limitations would be the second conditional factor; owner-manager limitations due to specialization and an expertise in the existing industries and related competencies. Owner-managers of the additional 4 firms (14, 39, 40 and 59) were seen to fall into this category. Specialization would inevitably result in owner-managers channeling their entrepreneurial energy into their existing areas of expertise, even if there *was* a willingness to diverge. Owner-managers would need assistance to overcome this limitation, possibly by training, skilling or once again by increasing the size and skills of the dominant coalition. The following quote by owner-manager of Firm 59 belies a highly entrepreneurial individual who has placed all his life's focus on building up a conference industry on the Island, with little time and energy to diversify further:

> *In 1978 I began seeing what we call today 'the conference industry' on the horizon. So when in 1978 no one was talking conferences, I was already seeing the possibility of getting into Malta a company…. I have (now in 2009) been saying for a long time, in our circles here in Malta, that we haven't yet scraped at the iceberg called conferences.*

In conclusion, a third proposition summarizes the issue of firm – owner-manager congruence:

Proposition 6: More entrepreneurial owner-managers will adopt the *contained growth* strategy as a temporary state whilst more conservative owner-managers will permanently adopt a *contained growth* strategy.

7.5 Small Firm Strategic Behaviour: A *Repositioning* Trajectory

Appendix 9.3 shows 19 firms that have been identified as following a *repositioning* strategy. The word 'repositioning' has been adopted due to the common behaviour of the firms in first energetically diversifying and going into new product/markets, but subsequently contracting back into a functional efficiency mode of operation. As illustrated in the earlier Figure 7.2, this is the second batch of firms that finally settle into an FEO state. The following Figure 7.8 illustrates the general trajectory for the 19 firms. The figure shows that although the firms' final orientation is FEO, similarly to that of *controlled focus* firms, the trajectory is very different indeed.

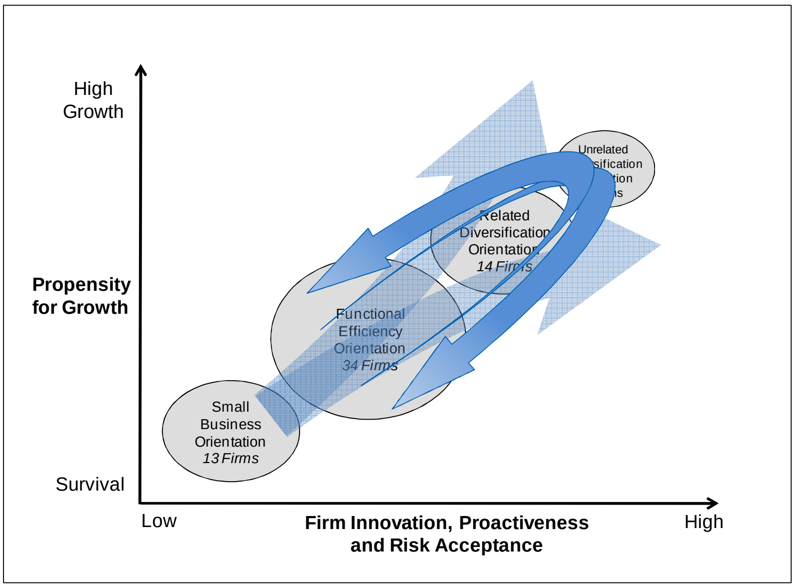


Figure 7.8: *Repositioning* Strategic Trajectory

Reference is once again made to the summary of the firms' essential characteristics, shown in Table 7.1. The firms are the second largest in size, both by way of employee count (average of 18.6) and with respect to the firms' net asset values (average of €656,508). The dominant coalition was also the second largest, with an average size of 1.53. These were the oldest firms of all (Figure 7.4), in fact on average double the age of the *controlled focus* firms (that had also settled into a similar FEO state). The firms had the highest liquidity of all, and were also the most heavily geared with an average capital structure ratio of 50%. A look at NAV fluctuations over the years (Figure 7.9 further on) shows a diffracted picture. As opposed to the four other trajectories (visually compared in Figure 7.15 later on), no one particular pattern could be discerned from the individual trajectories of the firms. Some firms had a substantial increase in NAV, others a significant reduction, others still had minimum variation. The implications of this will be discussed further on. As for the other trajectories, the database in Appendix 3 summarizes these firms' characteristics.

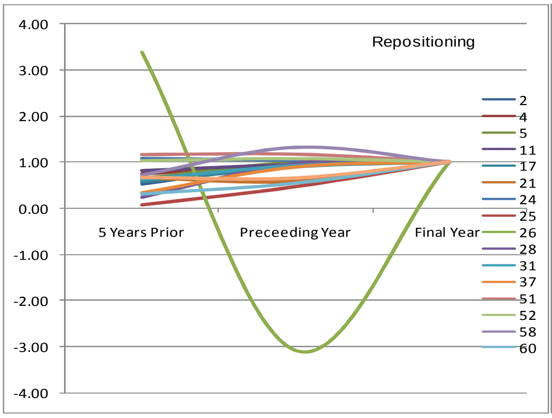


Figure 7.9a: NAV Fluctuations for the *Repositioning* Trajectory

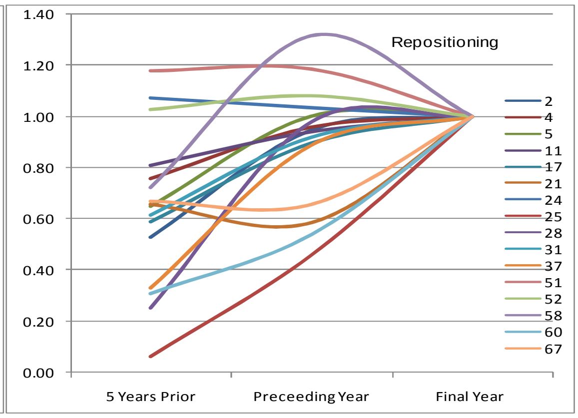


Figure 7.9b: Edited NAV Fluctuations for the *Repositioning* Trajectory

As the firms' final form of behaviour has already been summarized in Table 6.1 (under the FEO state) the focus here is more on the firms' trajectories, and their meaning. The firms' **historic start-up situation** was the first category to be analyzed, as usual using MAXqda's *Text Retrieved Segments*. The picture that emerged showed two generic start-up scenarios, one for 'established' firms and the other for more recently set up firms. The 'established' firms were generally over 20 years old, many over 30 years old (firms 5, 11, 52, 58) and some even exceeding 60 years in age (firms 4, 60, 67). The word 'established' is being adopted here as the firms had a historic track record on the island, the company brand names were well known, and the firms often related to a respected business family. These businesses were often pioneers, having created an enterprise from virtually nothing, but also having had the advantage of starting off in a munificent industry with little competition. An example comes from the owner-manager of Firm 11, a company that went on to diversify into some three totally independent areas of business operation:

> *My grandfather began... he was in Malta from Italy in 1885. And he formed his own small business, all on his own. Those times he was a craftsman, and he used to make gloves and handbags. Then he pulled in his son, and his son opened up a shop, and then my father opened up a shop. Then in the 60's, late 60's he (my father) began his own business or early 70's.*

Another example comes from the quote of professionally employed manager of Firm 21, a company manufacturing wastewater-related products. The start-up of this firm goes a long way in explaining the resulting strategic behaviour of the firm. The conception of the firm was based the logic of an international company requiring a marketing base to fuel its expansion within the Mediterranean. The marketing base was set up, and was supported by the local company also commencing manufacture of the product. As costs at the mother company's other plants increased, sales fell, and the local firm showed more and more manufacturing expertise, the picture changed. The local company was refocused on high-end manufacture and innovation creation to fuel future product design. Within years the firm took over all the manufacturing requirements of the mother company.

> *The company has existed for 10 years. I can tell you from what I have learnt and from what I have heard. (Name of company mentioned) which is the mother company, has been founded for some 40 years, they have vast experience in the sector. The company in Malta started off in 1998, some 10 years ago. And it started off with the objective of being a marketing office in the region of the Mediterranean. It would tap the local market, the North African countries, Libya and Tunis, Dubai, Qatar, Oman, Greece and Cyprus. In other words countries in the Mediterranean, and where there would be the market for this type of product. In time, obviously, the company developed into the manufacturing arm of the group.*

As mentioned earlier it was not only 'established' firms that followed a *repositioning* strategy, as there was evidence that even more recent firms with a shorter life cycle would adopt this strategic trajectory. Firms such as firm 2, 25, 26, 37, 46 and 51 are an example of this, often having started off part-time or with minimal resources to support the business in its early days. Once again, the *historic start-up situation* provided some insight into the strategic behaviour of the firms. A moderate to high level of entrepreneurial owner-manager behaviour was always evident, as the owner-managers strove to create a business from little more than their skills and experiences. An example of this comes from the quotation shown below from the owner-manager of Firm 51. Of interest to note is the trajectory of this firm shown in Appendix 9.3. The owner-manager had always displayed somewhat of a conservative management philosophy, as evident in the gradual induction into the business. The business had gone on to diversify and grow, but with limited success. The owner-manager ultimately chose to reposition the firm to focus solely on audit related activities.

> *I had started off the business on a part-time basis… it was difficult to leave a full time job, and having the pay of a financial controller which was quite good. So to leave the post of financial controller from an established company, to leave and start off on your own… it is not easy.*

The **strategic actions and reactions** of the 19 firms in the cohort were carefully analyzed to learn more about the behaviours and competitive conditions of the firms over time. From the multitude of actions and reactions it appeared that there were three distinct *repositioning* scenarios that the firms could face. Although the situational factors were different in each case, the resulting trajectories of strategic behaviour were largely the same. If one reviews the two main questions of interest in the research; 'what is happening and why?' the first question has already been addressed in the study of the firms *functional efficiency orientation* (FEO) in Chapter 6. The firms were adopting an efficiency or productivity-oriented philosophy. They were highly focused towards a limited range of products or services, either highly routinised or highly specialized. Strategic actions being taken by the firms were mainly aimed at strengthening their FEO posture. It is the question *why* that significantly distinguishes these *repositioning* firms from their *controlled focus* counterparts, bearing in mind that both groups ultimately adopt a similar functional efficiency (FEO) state. A look at the three *repositioning* scenarios is in order, and for this to be done the **owner-manager characteristics** also have to be taken into consideration. The first repositioning scenario is in the minority with only two firms falling into this sub-category; firms 46 and 51. This appeared to be a situation where the firms had diversified and grown beyond the entrepreneurial philosophy of the owner-manager. The following quotation by the owner-manager of Firm 46, a one-man recording studio, refers:

> *I have always gone to the client and have learnt the principle of doing things one piece at a time. There is no need to run, no need to hurry. If today I can afford to buy that object, I will buy that object, and I take the maximum that I can from it. If I cannot go there, I will not try. (Cautious?) Very much so. That is me. That is my ethic.*

Of interest to note is that the firm in question had started off with two owner-managers, and diversifying into video editing, a different industry with a different market. This was unsuccessful and the business was refocused on running a recording studio, this time with one person as the second owner-manager had died and was not replaced. Appendix 9.3 in fact shows the owner-manager's conservative philosophy to be the limiting factor in the firm's behaviour. A similar situation is that of Firm 51 where the owner-manager repositioned his firm in the core initial area of audit work after failing to pull in a partner and expand into other finance-related activities. An identical mismatch of conservative management philosophy with more entrepreneurial firm behaviour can be seen in this second case. One may possibly argue that the two isolated firms in question actually fit more into a *controlled focus* strategic trajectory. In fact, there is somewhat of a fine line between a *controlled focus* strategy of oscillating around one core product/service and a *repositioning* strategy of moderately diversifying and then retreating. The remaining 17 cases are, however, more clear in their demarcation, as shall be shown.

A second *repositioning* scenario exists for firms 2, 4, 5, 11, 17, 31, 37, 52 and 67, although again the final focused outcome is the same. A look at the firms' trajectories in Appendix 9.3 quickly identifies these firms as having a clear business – owner-manager philosophy mismatch. In all cases the management philosophy of the owner-manager is substantially more entrepreneurially inclined than the evident business orientation. This mismatch does not mean that the business is doomed to failure, as indeed an argument has been placed in Chapter 6 that entrepreneurial managers can adapt to a more conservative line of behaviour more in tune with the operational conditions of the firm. An example of this more entrepreneurial philosophy, owner-manager of Firm 11 had the following to say about how the firm was made to adapt to changing competitive conditions:

> *We are very, very flexible, and if something is not working... we call a spade a spade and... change.*

The question *why* once again surfaces here; why did these firms ultimately reposition into the more conservative *functional efficiency orientation* after having initially taken on such a different and more entrepreneurial diversification strategy? For example, Firm 2 chose to close down its various subcontracting activities and focus instead on one high-end electronic product. Firm 5 had initially branched into a number of electrical and electronics industries but was increasingly repositioning itself within the home/office control market. Firm 11 had opened up many years ago into three different business lines of home décor, baby goods and textiles, but was now moving out of textiles and consolidating its business of household goods. Firm 31 had initially branched into cigar manufacture, refrigeration, blending/epoxy paint manufacture and tampo-printing, but was now selectively targeting cigar manufacture and moving out of the other lines of business. And so on. It is not to say that all the businesses in this group eliminated all but one line of business, some repositioned themselves within more than one of the business lines adopted initially. However, even in these cases the business orientation within the individual lines was one of a *functional efficiency orientation*, that is, a highly focused and efficiency–cost directed stance. The answer to the question *why* appears to lie in the conditional lens, particularly in the limitations placed upon the business by the competitive environment. A review of the competitive landscape for these firms reveals a changing business environment, one that has put severe pressures on the firms' operations and even their very survival. An example is a quote from a cigar manufacturing company (Firm 31) that had been forced by global labour trends to outsource much of the cigar manufacture activity:

> *Today things are still the same, but instead of in Malta, there are other countries; Sri Lanka, Indonesia (so you do part of the process). So here, since we have entered the E.U., we are working in the same way that they used to work in Belgium before, but automated. So we do not even prepare the tobacco over here. I buy the source of my material from Sri Lanka. Why? Because I am going to buy it from there in a ready cut fashion, not cutting it myself. Low labor cost, with top quality tobacco.*

Another example comes from the owner-manager of Firm 4, a business manufacturing and installing apertures on a commercial scale. The local industry conditions had become so competitive and saturated that this more established firm was finding it difficult to justify the prices it charged for the higher end services that it provided:

> A different situation… another hotel. We were around Lm10, 000 higher in a bid of Lm120, 000, around 7, 8% more expensive. The client did not want to give us the contract and told us that the other offer was cheaper. We told him that those prices were impossible for us to meet. So he gave the work to someone else. Half-way through the supplier failed! But the client is only seeing costs, unfortunately.

Again and again the quotes from the owner-managers showed environmental conditions that were negatively affecting the competitive advantages held earlier by these older firms (keeping in mind that these are the oldest firms of all, see Figure 7.4). Repositioning seemed the logical thing to do, allowing the firms to re-establish themselves in what they did best. Environmental forces impacting upon the firms came from various sources; the direct industry, the local environmental – competitive conditions, and also the global environment. The changing competitive landscape is summarized in the following quote from the owner-manager of Firm 2:

> *Hence our business is getting tougher and tougher. You will, however, always find a niche, that is someone who has specific needs that you are equipped better for.*

Earlier on it was mentioned that three *repositioning* scenarios were apparent, two of which have been described so far. The third scenario relates to firms 21, 24, 25, 26, 27, 28, 58 and 60. There is a small but important difference between this group and the one discussed before; a better strategic fit between the management philosophy and the firm's entrepreneurial behaviour. In general the managers of this group were more conservative in behaviour, and with a reason; they appeared to have been purposely inducted into the business with the aim of taking the business towards a particular strategic direction. In fact, none of the managers were owners of the businesses in question and all, without fail, had been professionally employed for the task. A clarification is in order here, a conservative nature does in no way imply a manager who adopts a paternalistic or totally democratic philosophy. The managers in question were skilled, focused and consistent in their visible behaviour, but did not demonstrate the traits necessary for the creation of new business, of new product/markets. This appears to be fully in line with the focused demands of the owners of the businesses, these persons often being the earlier owner-managers themselves and the ones that had created the businesses in the first place. This situation is described by Ling, Zhao and Baron (2007 p.679) as one where "*the focus for older firms shifts from growth to stability*". An example comes from the manager of Firm 60, who explained how the Directors had first created the particular business and then subsequently employed him to manage it. Very evident was the loyal but conservative nature of the manager as he took the business in the direction that the Directors wanted. The overall strategy is well mapped out by the trajectory; grow the firm into a number of businesses, then get loyal employees to run these is a focused fashion:

> *The group is always looking towards new investments to expand and grow. As a family they have always preferred to leave the profits within the company, and invest them.... A case in point, I have been with the company for 13 years. I came in as an accounts clerk. Today I am a senior manager in the firm, I have certain responsibilities, I am responsible for 40 people in one of the subsidiaries… Yes, yes, and the directors keep very much in touch. The management also has a very good relationship.*

Another example of the consistent yet conservative nature of these employed managers comes from Firm 21. Once again these were not the owners of the firms, but managers employed to run the firms. Even the motivational styles being adopted betray a focus towards continuity and a lack of energy towards business creation. The following quote comes from the professional manager of Firm 21, similarly employed to manage one of a number of businesses created by a well-known local entrepreneur:

> *But, as a person I like to be a bit flexible. So, for example, not necessarily if I am thinking in a certain manner, I will expect others to behave exactly in that manner. I feel that I am flexible, for example if I say I think that this should be done this way, and you say no, that should be done that way, I am not too proud to say yes. I prefer to give the person enough leeway to work the way he wants to… I also feel that everyone should feel important... Possibly one of my defects is that I am not always tough enough with people.*

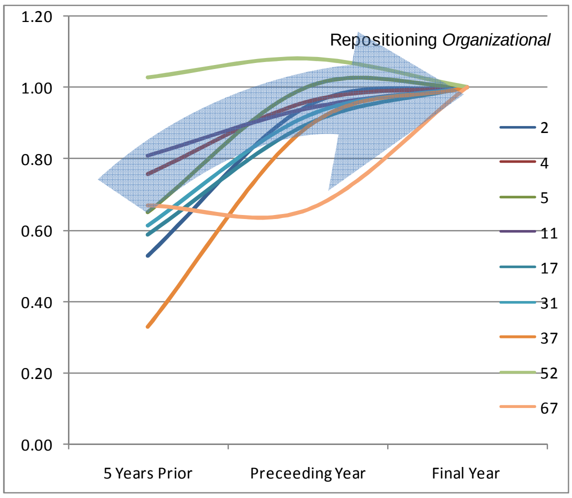
Possibly the best example is that of five of the firms in this group; that is, five limited liability companies owned by a single, large business family. The family purposely employed a well-known local CEO, who was known for his success in cost cutting, to take over the management of the five small businesses. The CEO had the following to say about his role in taking the businesses in the direction that the shareholders wanted:

> *I think that we have gone through a lot of changes here these last few years. I think that at the moment it is survival. That is the key, survival and controlling debtors. You might say what is a value in debtor, but at the end of the day it is what counts. So, rescuing the company, and get it to at least break even this year, surviving, and trying to get debtors under control because they are not under control.*

Whilst the business environment may have induced the owners of these firms to employ particular traits of management, one still has to acknowledge the strategy of achieving a match between the firm behaviour and the management philosophy in a bid to follow a targeted *repositioning* trajectory. In summary, the first of three further propositions (7, 8 and 9) describes this trajectory:

Proposition 7: Firms will follow a *repositioning* trajectory when either organizational – environmental or individual conditioning factors will no longer allow the firms to compete in a more entrepreneurial, diversified fashion and instead force the firms to consolidate and refocus on core areas of business operation and niche markets.

Another important parameter is, as usual, the performance of firms following this particular trajectory of strategic behaviour. The most evident measure of performance that is intrinsic to the nature of these firms is the success by which they manage to reposition themselves into a stable, functional efficiency orientation. As has been seen, firms may do so either out of choice or are induced by the competitive environment. In fact Covin and Slevin (1991 p. 21) argue that "*in certain contexts, a conservative strategic orientation will be preferable to a highly entrepreneurial posture*". As seen in Table 7.1 and Figure 7.4, these are the oldest and second largest cohort of firms, both by way of net asset value and employee count. Earlier on the diffracted nature of the firms' NAV growth was demonstrated (Figure 7.9b). The two main groups of *repositioning* firms (those influenced by the environment and those by the choice of manager) were then analyzed separately, as shown in the following Figure 7.10:



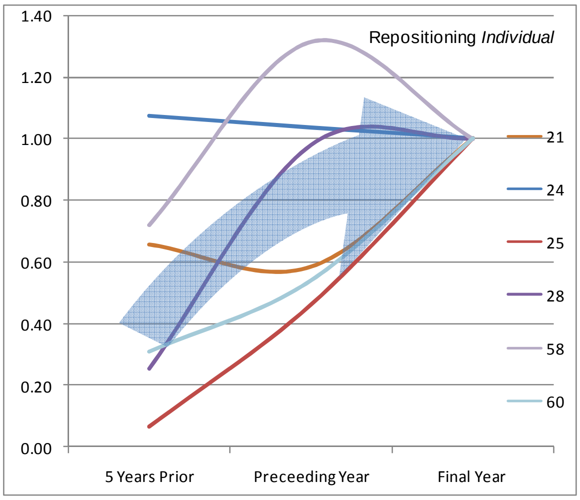


Figure 7.10a: NAV Fluctuations for *Repositioning* Firms with 'Organizational' Influences

Figure 7.10b: NAV Fluctuations for *Repositioning* Firms with 'Individual' Influences

The graphs above go some way in explaining the scattered nature of the earlier Figure 7.9. Growth measured by NAV fluctuations was more consistent, and more gradual, for the firms induced to reposition due to organizational – environmental conditions. The mean NAV growth over 5 years was at 34%. For the firms that had had a purposeful management change the NAV growth was more scattered and more steep; at a mean of nearly 50% over 5 years. One possible reason for this could be that the owners of the firms had purposely brought in professional management to induce stability into the firms, whilst at the same time obtaining the loyalties and benefits desired. Looking at the subjective descriptions for performance (MAXqda's *Text Retrieved Segments*), a number of performance criteria surface repeatedly. Two inter-linked criteria seemed to be the main focus for the firms. These were a) stability measured by sales/turnover, efficiency in operations, and effectiveness in launching projects, and b) profits at the end of the day, again as a measure of revenues against cost efficiencies. In summary, two further propositions are put forward for firms following this repositioning trajectory:

Proposition 8: Firms following a repositioning strategic trajectory will look towards building stability in revenues and sales, and in achieving adequate profits in line with shareholders' expectations. Firms here have a large net asset value but fragmented net asset value growth.

Proposition 9: More entrepreneurial owner-managers will be forced to follow a *repositioning* trajectory due to an increasingly adverse business environment whilst more conservative managers will be employed by owners of the business to follow the trajectory purposely.

7.6 Small Firm Strategic Behaviour: A *Dynamic Growth* Trajectory

A total of 6 firms displayed a trajectory of *dynamic growth*, as shown in Appendix 9.4 for firms 6, 13, 15, 29, 41 and 66. The individual firm trajectories indicate that most firms started off in a more contained *functional efficiency orientation*, with only one firm (Firm 6) appearing to have started the trajectory from a more diversified base. As demonstrated in Figure 7.2 and Table 7.1, all the firms following this dynamic trajectory ended up in an *unrelated diversification orientation* (UDO) state. The following Figure 7.11 illustrates the trajectory for the firms in question. As Chapter 6 has already discussed in depth the UDO state, the focus here shall be placed upon the logic and context of the trajectories of these 6 firms and any new insights that this will bring. Appendix 3 summarizes the statistics of these firms.

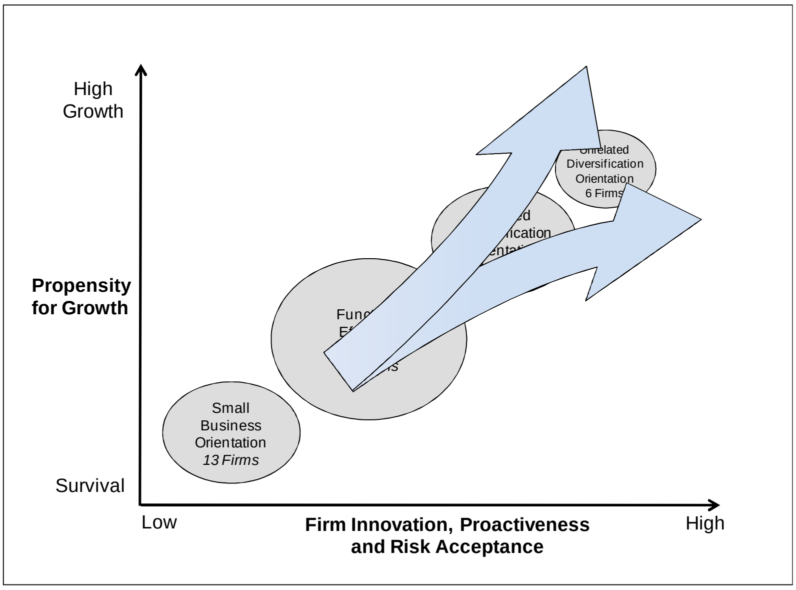


Figure 7.11: ***Dynamic Growth*** **Strategic Trajectory**

A look at the statistics of these 6 firms reveals an interesting picture. The earlier Table 7.1 shows the firms to be the largest of all, in fact almost double in size (from all aspects) to the second largest group; the *repositioning* group. What makes this interesting is that this group is in fact one of the youngest, as illustrated in the earlier Figure 7.4. Average employee count is at 34, there are on average 2.33 members in the dominant coalition, and the average net asset value is at €1.37 million. The following Figure 7.12 shows the NAV fluctuations of the firms in question, excluding Firm 6 that had not been in existence for the five-year duration. The general growth pattern is the steepest of all groups, with firms on average doubling their net asset value over the five-year period. This can be seen clearly in the comparison of patterns shown further on in Figure 7.15. In other words one has here a fairly young group of firms that have adopted an aggressive growth trajectory. Table 7.1 also shows a strong liquidity and a healthy gearing ratio.

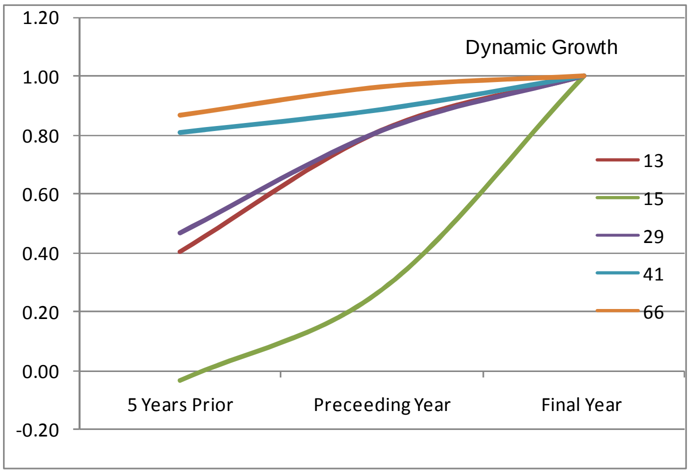


Figure 7.12: NAV Fluctuations for the *Dynamic Growth* Trajectory

A quick review of the general characteristics of these firms, discussed in Chapter 6 and summarized in Table 6.1 (for the UDO state), is in order. These were moderate to high technology firms with a wide array of physical resources. HR consisted of high technological levels of expertise and skills, and flat but centralized structures were mainly being deployed. The owner-managers were heavily involved in both creating and sustaining diversified value adding activities, going into new industries and new markets to that originally started out on. The high professional and academic levels of the owner-managers allowed for this diversification, allowing them to add products/services that were dependent on their innovativeness, knowledge and entrepreneurial aptitude. Firms were seen to be reinventing themselves and often working in the margin. Chapter 6 has also argued the case of perceived environmental uncertainty, in the case of these firms this being particularly low. What this implies is not that the competitive landscapes were munificent, but that the particular characteristics of the owner-managers allowed them to perceive (and then act upon) opportunities to diversify and grow.

Two other observations can be made from the trajectories shown in Appendix 9.4 and the descriptions provided earlier in Chapter 6. Firstly there is the strongest strategic fit of all firms between these firms' entrepreneurial behaviour and the management philosophies of the owner-managers. In fact this cannot be any other way when one considers the earlier argument that management philosophy is unidirectional; entrepreneurial managers can manage a 'static' firm whilst conservative managers cannot manage a 'dynamic' firm. Hence the entrepreneurial nature of the firm demanded a similar management philosophy from the dominant coalition. This also hints at another observation; does this mean that firm – owner-manager strategic fit is directly related to organizational performance?

Arguably *retrenchment* firms (to be discussed next) would be on the other end of a contraction – growth continuum, and in fact had the lowest financial performance of all. They also had the largest firm – owner-manager strategic mismatch of all. Interesting though this is it is somewhat of a simplification of the true nature of small firm performance, as has and shall be argued. Another point to be mentioned regards the roles of the different members of the dominant coalitions, particularly when it came to taking strategic decisions. It was observed that the entrepreneurial behaviour of the coalition would often be a teamwork-based approach, with one member acting more entrepreneurially and other members acting more mechanistically. High risk, proactive behaviour was very often seen, but it was often bounded by limitations placed by different coalition members. A clear example of this is in the following quote coming from the more conservative of two owner-managers of Firm 66:

> *My brother is insisting that we add a section over here, and that, and the other. The existing showroom is small. True, but how feasible is it that you have another showroom and you put a few additional things. Why? All right, it's available today, it may not be available tomorrow. So if we say we want to expand a bit, what do we do? Do we lose it? what do we do?... Today you need money, wages today… You have to take all these things into consideration.*

A look into the **historic start-up situation** of the firms shows immediate high levels of entrepreneurial behaviour by the owner-managers, even if the firms in question were initially focused on a limited set of competencies and product/markets. This may explain the aggressive company growth rates from the start. The first example below comes from owner-manager of a waste management firm (Firm 41), that started off as a waste collection agency and then opened up into bin retail, recycling and waste management consultancy. The initial proactive and innovative behaviour of the owner-managers can immediately be seen in the quote below:

> *We looked at waste management as a concept, and saw that Malta was far behind here. We went for this system that is used outside the island… that of using skips for industrial waste. As a company our target has always been industrial waste. That's how it all started. We did our marketing, and a one-to-one business meeting, with the clients… as this is a new concept. You have to see how to explain it, see how it will work via cost effectiveness, see how it will be attractive to them. In those steps, we were the first there.*

Of interest to note is that the owner-managers in question had no real business experience in waste management, but did come from a family with strong business acumen. Also, risk was contained to an extent in the way the firm fought to gain valuable land rights to base the business on, and this without entering into any obligations with the stakeholders concerned. A similar example comes from Firm 13, one of the earliest supermarkets to be established on the Island and now being developed into one of the first shopping malls. Once again the initial proactive and innovative behaviour is most evident, particularly when considering that these investments were a first for the country. The present owner-manager described the earlier start-off as follows:

> *More than difficult, the amount of work that Malta and Libya were doing together began declining. So, that was why... profits began going down, and one begins asking if one can do something else. And he diversified at those times in a radical way. (Was it his vision?). Yes, his, his. He had gone to Australia, and he had seen the first hypermarkets over there, we could not go 'hyper', although these days this establishment is considered by the Italians as a hypermarket, due to the amount of products we have.*

A look into the **strategic actions and reactions** over time (MAXqda's *Text Retrieved Segments*) shows more clearly what steps the owner-managers were taking to grow their businesses. Already argued in the previous chapter is that the firms were all in an evident growth stage of their life cycle, even if firm ages ranged substantially from 8 years to 33 years. An urgency to branch out into new industries and markets before maturity could possibly sink in is most evident in the quote below from the owner-manager of Firm 6:

> *Our core business areas in the Mediterranean and in Scandinavia were evolving to a level where they weren't necessarily new operations. So our consulting services were reaching a plateau in some respect, so we wanted the R&D company to help us evolve within our existing markets, and also to help us penetrate new ones whilst, at the same time, setting up the Arabian operations to try and penetrate into the Arab world and also East Africa and Asia.*

Once again the notion of accessing foreign markets is seen, allowing the firm to avoid a situation of limited market size. Even more aggressive in their drive to go global is the case of Firm 15, a business that was started off by two pharmacists who then used their MBA-based knowledge to help them diversify into inventory management, amongst other activities. As demonstrated by the quote below the moves towards diversification were highly premeditated, and were strongly supported by the skills and entrepreneurial aptitude of the owner-managers:

> *Five years ago we decided to internationalize our business, and we set a goal that by 2010, 70% of our personal wealth has to come from overseas businesses… When we started to see what we could do to target markets outside Malta. We say our strengths, were they were. We are very good retailers, we are very good at managing inventory.*

Not all the *dynamic growth* firms resorted to foreign markets, however, and firms such as 13, 41 and 66 relied predominantly on local markets, limited they may be. Chapter 6 has already described how the diversification activities of these (UDO) firms were directly dependent on the innovativeness, knowledge basis, entrepreneurial flair, and sheer hard work of the owner-managers. Care has been taken here to avoid repeating the descriptions provided in Chapter 6 on the resource and engineering implementations of these firms. The issues described so far allow for a first of three propositions (10, 11 and 12) to be made for these *dynamic growth* firms:

Proposition 10: Highly professional firms will enter a *dynamic growth* trajectory that will leverage the vast skills, knowledge and experiences of the owner-manager teams to give the firms entrance into unrelated industries and markets. Owner-managers will be heavily involved in both creating and in sustaining the firms' various value adding activities.

An overview of the performance objectives of these firms is in order. Owner-managers discussed various performance-related criteria such as; a range of growth and expansion measures, successfully reinvesting into the company, aggressively marketing the firm, acquiring new competencies, various efficiency measures, profits, and acquiring larger market shares. If one is too add to these descriptions the general trend of the respondents' descriptions as well as the information provided in the objective analysis of the financial records, then the performance of these firms can be summed up through a second proposition:

Proposition 11: Firms following a *dynamic growth* trajectory will measure performance by way of two criteria; in the growth of the firm and in ways and means by which growth can be fuelled, measured, and sustained. These firms have the steepest growth and largest net asset value of all.

One issue remains; it still must be understood if the trajectory of these firms is an end in itself or if it should be related to any other of the strategic trajectories. Put differently, are these firms destined to keep on growing, having no maturity or decline to their life cycle? The evidence so far points towards fairly young firms with energetic, ambitious and skilled owner-managers. It is also evident that the successful growth of these firms is heavily contingent upon the direct contribution of the owner-managers. The firms' growth depends upon their coalition and its consequences… and this coalition will not last forever, at least not in its present form. A number of predictions can be made here; three in fact. The first one regards the boundaries of the firm, particularly with regards to firm size measured by employee count. It was this parameter that actually defined the boundaries of this research endeavor, with a decision to study small firms characterized by employing less than 50 full-time employees. Referring to Figure 7.11, this would imply that the firms would continue to grow until their employee count reaches 50, at which point the small firm no longer exists as a small firm but as a medium-sized firm (50 – 250 employees). At this point the patterns of strategic behaviour for the small firms would no longer be evident in the form and fashion identified in this study. Arguably this means that the pattern shown in Figure 7.11 is final; small firms will follow the trajectory until they cease to be small firms.

Two other possibilities exist, and have somewhat of a similar trajectory. The study has already shown that a *repositioning* trajectory exists, often followed when owner-managers diversify into different businesses and then employ professional management to run the separate business units in much of a *functional efficiency orientation* mode. The owner-manager will want to focus her entrepreneurial drive elsewhere, and will ensure that the business unit is managed efficiently whilst providing the revenues and synergies that are needed. A third possibility comes as a further development to the second. Possibly the business units or firms that are re-starting off in FEO mode will themselves diversify and grow, causing a repeated loop to that shown for the *repositioning* strategy. Whichever of the three eventualities taken the trajectories identified in this study appear to be able to describe effectively the ensuing patterns of strategic behaviour of the firm that is continuing to grow. This brings us to a third proposition for this trajectory:

Proposition 12: Owner-managers adopting a *dynamic growth* trajectory will either drive the firm towards growth outside the remits of the small firm, or reposition the firms' developing business units into a *functional efficiency orientation* mode.

7.7 Small Firm Strategic Behaviour: A *Retrenchment* Trajectory

A total of 14 firms followed what has been termed a *retrenchment* strategy. Appendix 9.5 provides the individual trajectories of these firms whilst Figure 7.13 below visualizes the general trajectory. As shown in Figure 7.2 and Appendix 3, all but one of the 14 firms ended up in a *small business orientation* (SBO) state. The exception is Firm 16, a company that closed down whilst still in FEO mode. Again the focus here shall be on the implications to the trajectory as the previous chapter has discussed the SBO state in some detail. The word 'retrenchment' has been adopted as the term has a variety of similar meanings (i.e. to cut down, reduce, economize, curtail, limit) that aptly describe the evident behaviour of the firms in question.

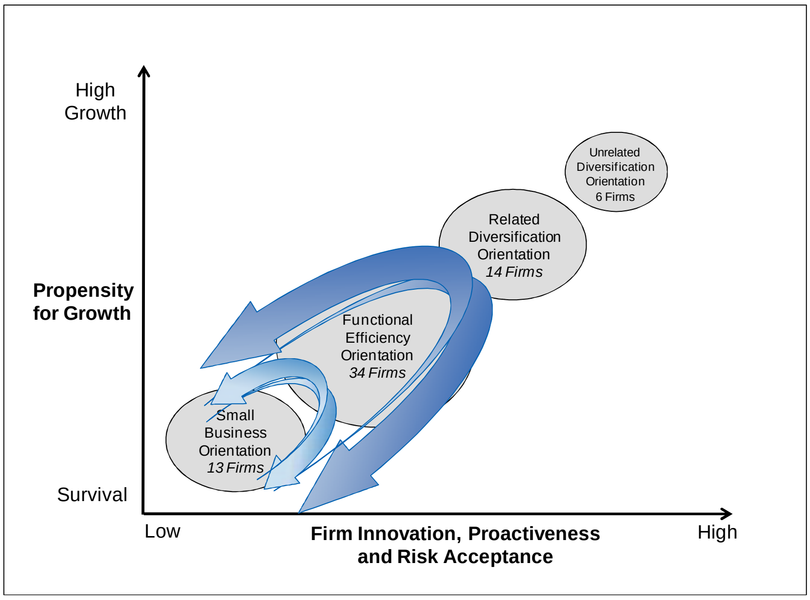


Figure 7.13: *Retrenchment* Strategic Trajectory

The statistics of the 14 firms show a group that is amongst the oldest with an average age of 27, but with no firms below 15 years of age. These were the smallest firms by way of employee count (average 7.2) and the second smallest with respect to net asset value (€307,773). This is consistent with the literature on 'traditional' or 'lifestyle' SME's (Mc.Mahon 2001). The firms also had the smallest size of dominant coalition (average 1.21) at usually one member, with only three of the firms utilizing two members. Average liquidity was one of the highest and gearing was moderate. An analysis of NAV fluctuations over the most recent five-year period confirmed fully the *retrenchment* strategy adopted by the firms. The firms' NAV fluctuations, visualized in Figure 7.14, showed the lowest growth gradients of all groups, with a NAV contraction of 12.7% in the last year alone.

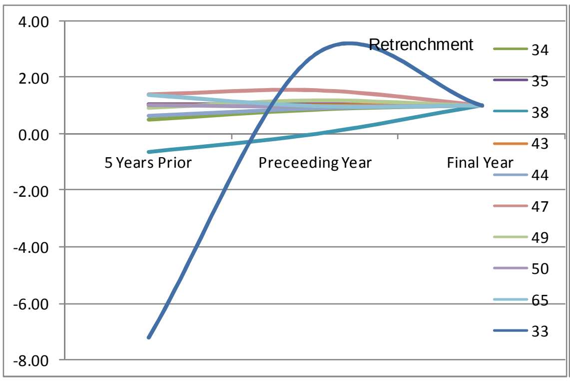


Figure 7.14a: NAV Fluctuations for the *Retrenchment* Trajectory

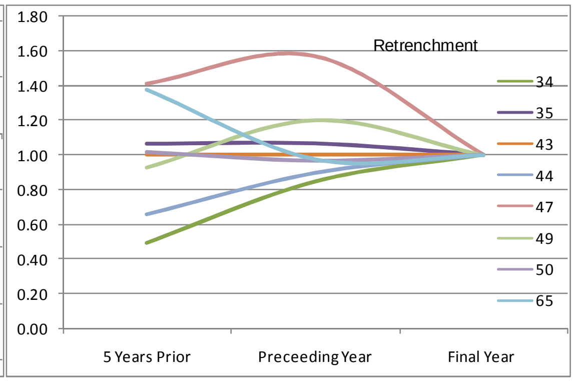


Figure 7.14b: Edited NAV Fluctuations for the *Retrenchment* Trajectory

A quick review of the nature of these firms, as described in Chapter 6 for the SBO mode, is in order. A static view showed firms faced with increasing levels of competitiveness, with changing consumer patterns, and with supply often exceeding demand within the industries concerned. Firms often perceived an unfavourable playing field with little government support, and adverse economic conditions. The firms were usually in mature or decline stage, and were seen to be implementing actions towards retrenchment, efficiency maximization, cost reduction and control. Businesses were usually focused towards one core competency, one in which the owner-manager had an intrinsic knowledge and vast experience. Proactive behaviour and risk levels appeared to be low, resource bases were somewhat limited, and often opportunity costs for the businesses were high. The threat of technology obsolescence was always present, and owner-managers were, on average, nearing retirement age. This does not mean to say that the trajectory could not include younger firms that chose not to evolve beyond a *small business orientation*.

As for previous trajectories the **historic start-up situation** shall be analyzed, as this provides important information on the origins of the firms. It had been previously argued that the management philosophy of the owner-managers of these firms would not necessarily reflect the static, conservative, nature of the firms. This is once again the unidirectional concept of management philosophy–business orientation alignment, where even highly entrepreneurial owner-managers could be seen managing a static firm. The information provided by respondents clearly demonstrates this concept. A first example comes from Firm 65; a manufacturing company specializing in making candles. The conservative nature of the owner-manager is most evident in this recollection of why the business was started 24 years before:

> *I needed to… to do something! To get in my wage. I did all the accounts myself. I said, there was a manufacturer in Rabat who had closed down, he had been there for ages, supporting his family. Candles have existed since before Christ. They should remain a necessity. I said, if they could do well if I worked hard, I should go well.*

A similar example comes from Firm 43, a manufacturing firm specializing in constructing and installing aluminium apertures and frames. The choice of the industry belies the conservative nature of the owner-manager, a gentle and easy going personality. Of interest in this case is the fact that the owner-manager had three incentives encouraging the firm to shrink towards an oncoming closure. Firstly, the industry was becoming overtly saturated with low-cost, smaller players. Secondly, the owner-manager was himself reaching retirement. Thirdly, the opportunity cost for the business, or more aptly for the land on which the business was lodged, was extremely high. The owner-manager clearly demonstrated his management philosophy in the behaviour that was enacted at start-up, as the following quote shows:

> *Originally it was carpentry. It spent some 3, 4 years focused on wood, and then we turned to aluminium. (Any particular reason to go to aluminium?). it was something new those days. There was a demand for it. It is easier to work as a skill. Wood*

demands more skilled employees. It was basically easier those days. Today it is more difficult to survive in this industry. (Why?). Easy to explain. Those days when we had started we were 4 companies in Malta. Today, listed, there are more than 250, in Malta alone.

However, as argued before, not all the owner-managers demonstrated this more conservative philosophical nature. Referring to Appendix 9.5, firms such as firm 16, 33, 35, 38, 44, and 57 all portray a management philosophy that is more entrepreneurial than the evident behaviour of the firms. The start-up situation of Firm 57 is a case in point. The owner-manager had worked with some of the major auditing firms, building substantial expertise but also showing a strong drive to strike out on his own. The decision was taken even though the firm had to be very creative in devising ways of pulling clients away from the large HR trainers in the country. The following is a quote from the owner-manager of the firm in question:

And I left. I went with an audit firm, and I spent 12 years working with audit firms, such as Ernst and Young, Pricewaterhouse, KPMG, Grant Thornton. In the meantime I was always on the go; my sideline was always on the go. The HRD sideline. Whilst I was initially in HRD I did this anyway, then one fine day I had decided to build it into a firm.

In order to understand better the logic of this *retrenchment* trajectory a closer look must be placed on the **strategic actions and reactions** taken by the owner-managers over time. When looking into the firms' behaviour individually, it was evident that there was not one but some five different situations for firms choosing to adopt a *retrenchment* strategy. Firstly there were two firms that appeared to have always wanted to perform in an SBO state with little additional ambitions, these being businesses 19 and 50. Firm 50 is a small family business, importing, roasting and selling coffee. The owner-manager professed that he would love to see the family's younger generation coming into the business, seeing this as an important success factor. The following quote shows where the real company focus lies:

And for standards, the client will establish this for me. And I need to make them (the client) happy, and I expect that the staff will work to make them happy like I do. If you want to keep on working with me. I am generous and I pay them well, I am not stingy. But I expect that every person that walks out of my shop feels satisfied and happy. The client, that is. And he will come back.

A second situation arose where there was a mistaken mismatch between the owner-manager characteristics and the business. This was the situation of Firm 16, a company that was sold by the initial owner-manager to a new owner who knew nothing about the industry. The firm ultimately failed and was repurchased by the initial owner. The third situation is an individual case where there is a strong mismatch between the owner-manager management philosophy and the firm entrepreneurial stance. This is a good example of where an entrepreneurial manager successfully manages a more conservative firm. The shareholders of Firm 33 are a German family who really see the business as no more than an extension to their family. The manager, a professional and dynamic engineer, does not agree with their business stance but adopts it loyally. He comments, however, as follows:

> *My wish, and I have had this for some time although they do not necessarily agree with me… I would like to expand, yes. It has to be done carefully. In the sense that… I want to sell a more complete product. When we started here we were…(name of product mentioned). And if someone came and asked for a platform, I would say no… we do (name of product mentioned). Today I have changed that view. And argue my case. Because they (owners) have the perception that we should not compete with our customers. My argument is different, especially in Malta. If you can give a complete service… you do business.*

The fourth and fifth situations are where most of the companies in the group lie. The fourth situation is one where an organization – business environment mismatch has forced the firms to change their business approach and has pushed them, albeit reluctantly, all the way back into an SBO state. This can be said for seven firms; 23, 34, 38, 43, 47, 49 and 65. To an extent the situation of these firms is a variant of the *repositioning* strategy; here firms are retracting from a *functional efficiency orientation* into a *small business orientation* (instead of from RDO/UDO to FEO). Once again the issue of environmental determinism comes into play, in fact five of the seven firms (23, 43, 47, 49 and 65) operate in increasingly hostile manufacturing environments. The remaining two service firms also operate in saturated and highly competitive industries; real estate and the confectionery industry. However, the conservative nature of the firms' management philosophy (as visualized in Appendix 9.5) once again points to the concept argued in Chapter 7 of perceived environmental uncertainty. The question that needs to be asked is 'why don't the firms try to diversify and move out of the excessively competitive environment they are in and instead choose to perceive insurmountable odds for which retrenchment is the only option?' This concept of perceived environmental uncertainty goes a long way in explaining how the business environment is perceived and acted upon by the firms' key players. It is not how munificent or hostile the business environments are… but how they are perceived to be (and ultimately acted upon) by the owner-manager. This means that the firm's management philosophy has a dominant role in aligning the firm with the business environment. For example, take the following quote by the owner-manager of Firm 49, very much demonstrating a defeatist approach towards the competitive landscape:

> *So, at the moment I am seeing the situation… in the sense that it is not manageable. You cannot manage it. I mean, I have a target, supposedly next Thursday I do so much work, and I am not on target at all. The things have become, in fact it is as though I am giving up. I can't manage the company as it is.*

In similar vein the following quote comes from the owner-manager of manufacturing Firm 23. By way of explanation the owner-manager was complaining how a government decision to privatize the national shipping line had contributed to the competitive downturn of the company:

> *Let's say one thing, one blunt straightforward thing. Before we had Sea Malta. Not politics, this is not politics. Before we had Sea Malta, and now we have Grimaldi. The prices have gone up, fuel has gone up, fair enough. Except, we used to get shipments on Monday morning, the ship would come in on Sunday. Now, Grimaldi comes in on Monday afternoon. So we get our goods on Tuesday!*

The fifth situation is essentially one of premeditated hibernation, that is, firms purposely choosing to slow down their business into an SBO mode for one reason or another. Firms 35, 44 and 57 fall into this category, all three firms having a management philosophy that is more entrepreneurially oriented than the more static behaviour of the firm. Owner-managers of Firms 35 and 44 are in near retirement and appear to be holding on to their firms in anticipation to the induction of family members. The owner-manager of Firm 57 is younger, has just gone through a personal setback, and sees the firm to be waiting for a revitalization. The following quote from Firm 35 demonstrates this two-staged approach of first adopting an entrepreneurial, creative stand, and then easing back in anticipation:

> *Over here I first started off with a small phase. On a smaller scale. In the beginning you need to take care of various things, such as where to put the compost, where*

> *to pasteurize, and other things. Then I started to attend courses abroad. I was always adventurous, because to learn and to meet people was always something… I could have closed down this mushroom farm. But I have two kids and my principle is that they should be able to continue on this. Freedom to choose is good.*

One issue that remains outstanding regards the age bracket for the firms in *retrenchment* mode. The fact that all the firms were over 15 years old may be seen to imply that the trajectory is a follow-up of another set of strategic actions. In other words it is not a trajectory at all, but part of a larger trajectory, such as for firms *repositioning* all the way back to an SBO state. Whilst this may well happen, that is firms may well reposition towards an SBO state, the *retrenchment* strategy does not have to be solely part of a larger picture. The FEO state and the SBO state are two entirely different orientations, with different objectives, different contexts and different consequences. The *retrenchment* strategy would not only contain firms falling back from previous patterns, but also firms initially limiting themselves to an SBO orientation from the start. Many small businesses with part-time employees would follow this strategy, these firms still being limited liability companies fully in line with the parameters of this small business research. Objectives of these firms would often be more towards satisfaction and personal achievement than building an efficient organization with a highly focused intent. McMahon (2001) argues that these small 'lifestyle' businesses have few growth aspirations and exist primarily to provide their owner-managers with a source of employment and income. Runyan, Droge and Swinney (2008) describe small business orientation as firms run by owner-managers who are emotionally attached to the business, as a means of generating family income, more satisficing than maximizing. A way to see this visually would be to imagine the main loops shown in Figure 7.13 to be smaller, never really going beyond the SBO state (as has been illustrated with a smaller set of loops). This would also provide a similarly flat NAV pattern, in line with the trends illustrated in Figure 7.14. In this case a *retrenchment* strategy could be described as more of a 'limiting' strategy. Firms 19 and 50 would arguable fall into this category. This leads to the first of three propositions (13, 14 and 15) for firms following a *retrenchment* strategy:

Proposition 13: Older or less professional firms follow a *retrenchment* trajectory that will leverage all the existing skills and knowledge of the dominant coalition to allow them to limit their operations to an economic minimum, and direct their resources and efforts into one core area of business competency.

As for the previous trajectories a review of performance criteria, for this trajectory, is in order. Three main performance criteria were emphasized upon by the owner-managers, complementing the financial performance achievements discussed earlier. These were turnover or other output-related criteria; very survival in itself; and personal satisfaction. In summary, this leads us to two further propositions:

Proposition 14: Firms following a *retrenchment* trajectory will look towards turnover or firm output, survival, and personal satisfaction as key performance criteria. Firms have a low net asset value and flat, often negative net asset value fluctuations.

Proposition 15: More entrepreneurial owner-managers will willingly follow the *retrenchment* trajectory as an interim strategy whilst more conservative owner-managers will be induced to follow the trajectory due to a perceived hostile environment or for personal satisfaction.

7.8 Summary of Findings

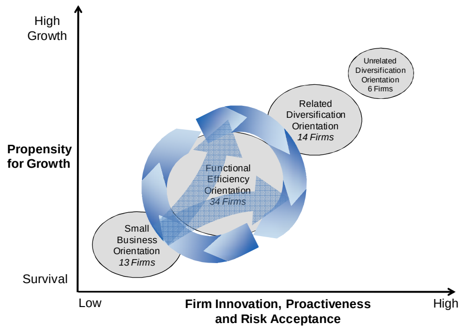
Mentioned earlier on was an observation by Corbin and Strauss (2008) that mapping out of both context and process together is a most challenging endeavor as the clusters of conditional and consequential variables change and covary with the actions, and reactions, taken over time. The approach adopted to overcome this difficult challenge has been to first establish the various evident strategic states that small firms adopt (subject of Chapter 6), and then map out the trajectories that the firms follow over time as they retain or change their states. It has been argued that the resulting trajectory-based typology loses nothing of the cross-sectional picture of small firm strategic orientation, but adds meaning and a better understanding to the logic and conditions of the firms' evolving strategic behaviour. In fact, this chapter has argued that a cross-sectional picture of small firm strategic orientation is correct, but is incomplete. This two-staged approach is not unique in mapping out trajectory typologies, although it is uncommon simply because trajectory-based typologies are uncommon in themselves. A noticeable example of this approach is one that all undergraduate marketing students are well aware of; Kotler's

(1997 p. 346) product life cycle concept. Kotler first starts off by identifying four (sometimes six when *new product development* and *shakeout* are included) phases that a firm's product will go through; the introduction, growth, maturity and decline phases. Each phase is in itself a 'cluster' of contextual and consequential conditions. Kotler then proceeds to map out these conditions using two dimensions; sales/growth (Y-axis) and time (X-axis). A typology of common trajectories is utilized, such as for products following a '*growth-slump-maturity*' pattern, or '*cycle-recycle*' pattern, or '*scalloped*' pattern (other patterns are the *style*, *fashion* and *fad*). Both the stages themselves have important meaning as do the resulting patterns (trajectories) that the products follow. Take, for example, the maturity stage and how this is influenced by network effects. Take also the trajectory of a fad such as a fashion item, and the meaning portrayed by this trajectory. Figure 7.15 below summarizes the typology, showing the five different strategic trajectories that a small firm may opt to follow. Three propositions, a graphical description, and the NAV pattern for each trajectory type are outlined.

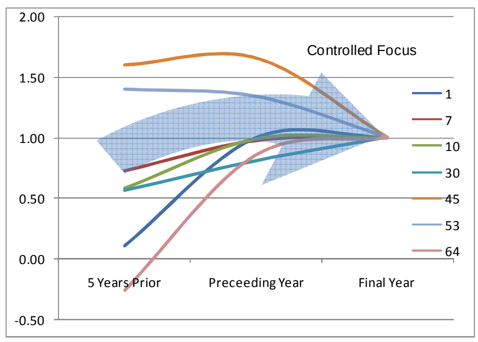
Proposition 1: Younger, smaller firms often adopt a controlled focus strategy that looks towards competency building in one core activity/process, a strong owner-manager knowledge of the industry and skills in the firm's key engineering processes, and a strong client dedication within a limited consumer market.

Proposition 2: Firms that adopt a controlled focus trajectory view performance in terms of increase in financial criteria, such as achieving stable revenues, and non-financial criteria particularly customer satisfaction and quality of service provided. These firms have a very low growth and the lowest net asset value of all.

Proposition 3: More entrepreneurial owner-managers will adopt the controlled focus strategy as a temporary state whilst more conservative owner-managers will permanently adopt a controlled focus strategy.



Graphical Illustration of Firm Transitions



Fir

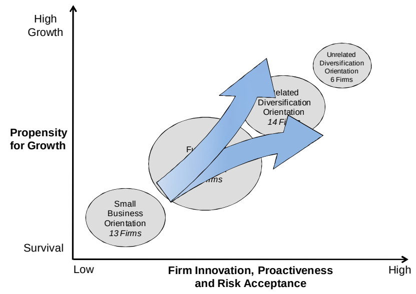
m NAV Fluctuations

Figure 7.15a: The *Controlled Focus* Strategic Trajectory

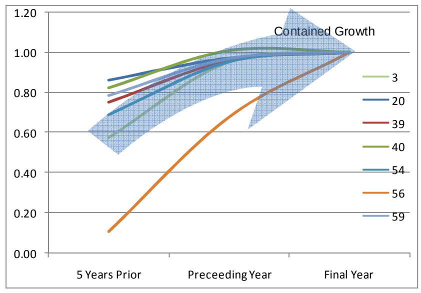
Proposition 4: More professional firms often enter a *contained growth* strategy that consists of a two-staged approach of first specializing in a core competency and then diversifying into moderately related activities and markets. This allows for the creation of differentiated products/services and a more select consumer base. Owner-managers are multi-skilled and exert strong control over the firms' resources.

Proposition 5: Firms following a *controlled growth* strategy will look towards three performance criteria: enhancing the client portfolio; sustaining a strong customer base through a differentiated product and strong brand identity; and a varied range of financial measurements. Firms here have a moderately large net asset value and stable NAV growth.

Proposition 6: More entrepreneurial owner-managers will adopt the *contained growth* strategy as a temporary state whilst more conservative owner-managers will permanently adopt a *contained growth* strategy.



Graphical Illustration of Firm Transitions



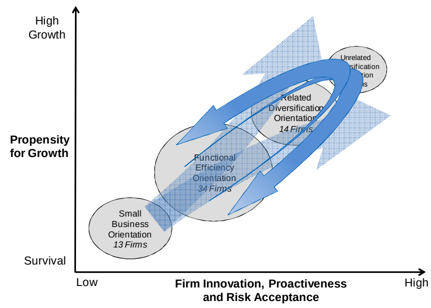
Firm NAV Fluctuations

Figure 7.15b: The *Contained Growth* Strategic Trajectory

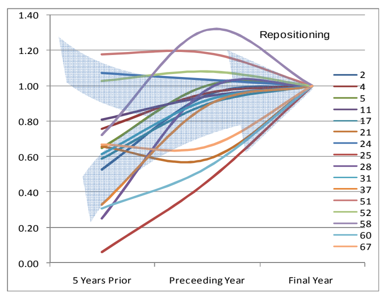
Proposition 7: Firms will follow a *repositioning* trajectory when either organizational – environmental or individual conditioning factors will no longer allow the firms to compete in a more entrepreneurial, diversified fashion and instead force the firms to consolidate and refocus on core areas of business operation and niche markets.

Proposition 8: Firms following a repositioning strategic trajectory will look towards building stability in revenues and sales, and in achieving adequate profits in line with shareholders' expectations. Firms here have a large net asset value but fragmented net asset value growth.

Proposition 9: More entrepreneurial owner-managers will be forced to follow a *repositioning* trajectory due to an increasingly adverse business environment whilst more conservative managers will be employed by owners of the business to follow the trajectory purposely.



Graphical Illustration of Firm Transitions



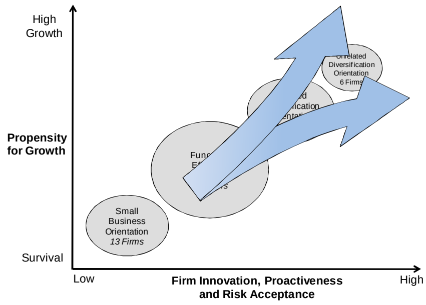
Firm NAV Fluctuations

Figure 7.15c: The *Repositioning* Strategic Trajectory

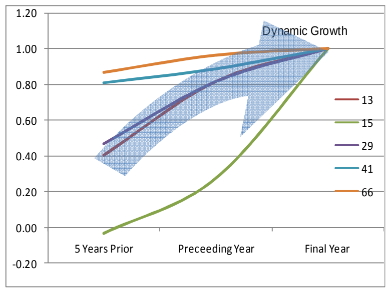
Proposition 10: Highly professional firms will enter a *dynamic growth* trajectory that will leverage the vast skills, knowledge and experiences of the owner-manager teams to give the firms entrance into unrelated industries and markets. Owner-managers will be heavily involved in both creating and in sustaining the firms' various value adding activities.

Proposition 11: Firms following a *dynamic growth* trajectory will measure performance by way of two criteria; in the growth of the firm and in ways and means by which growth can be fuelled, measured, and sustained. These firms have the steepest growth and largest net asset value of all.

Proposition 12: Owner-managers adopting a *dynamic growth* trajectory will either drive the firm towards growth outside the remits of the small firm, or reposition the firms' developing business units into a *functional efficiency orientation* mode.



Graphical Illustration of Firm Transitions



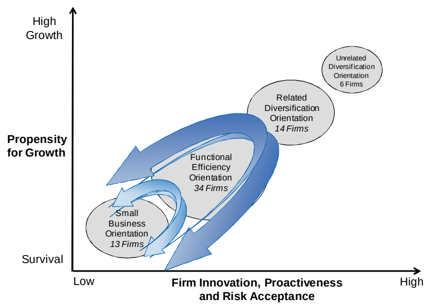
Firm NAV Fluctuations

Figure 7.15d: The *Dynamic Growth* Strategic Trajectory

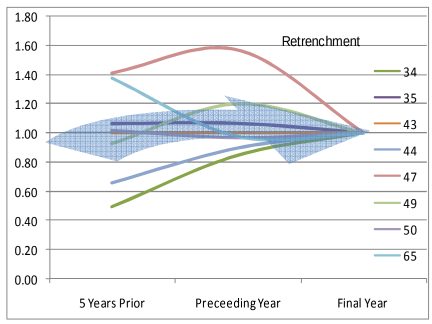
Proposition 13: Older or less professional firms follow a *retrenchment* trajectory that will leverage all the existing skills and knowledge of the dominant coalition to allow them to limit their operations to an economic minimum, and direct their resources and efforts into one core area of business competency.

Proposition 14: Firms following a *retrenchment* trajectory will look towards turnover or firm output, survival and personal satisfaction as key performance criteria. Firms have a low net asset value and flat, even negative net asset value fluctuations.

Proposition 15: More entrepreneurial owner-managers will willingly follow the *retrenchment* trajectory as an interim strategy whilst more conservative owner-managers will be induced to follow the trajectory due to a perceived hostile environment or for personal satisfaction.



Graphical Illustration of Firm Transitions



Firm NAV Fluctuations

Figure 7.15e: The *Retrenchment* Strategic Trajectory

Once again a reference has to be made to the methodological issues that influence this particular chapter. Two issues stand out in line with the grounded theory method of enquiry that has been adopted. These are the concepts of verification and of triangulation. As Strauss and Corbin would argue, verification is not a one-off activity but is a continuous process that takes place hand in hand with the activity of constant comparison. It has been no less so in this case, where the mapping out of the trajectories of the 67 firms also allowed for a repeated verification of the accuracy of the strategic states identified earlier. In other words, weaknesses in the strategic orientation model discussed in Chapter 6 (SBO, FEO, RDO and UDO states) would have surfaced in the later, trajectory mapping exercise. Writing of descriptive memos allowed for confirmations, clarifications, and enhancements to the developing models. The inclusion of secondary, objective data by way of audited financial records allowed for additional verification, and for what Patton (2002) describes as *methods* triangulation. Comparing the financial fluctuations of the firms to the in-depth descriptions provided by respondents allowed for important clarifications and confirmations to be made. The financial data, particularly NAV fluctuations, confirmed and supported owner-manager descriptions and added strength to the understanding of small business performance. As agued by Patton (2002 p. 558); "*qualitative and quantitative data can be fruitfully combined to elucidate complementary aspects of the same phenomenon*".

7.9 Discussion and Implications

The chapter has focused primarily on the logic of the trajectories in an attempt to answer more fully the questions *what is happening?* and *why?* Whilst Chapters 6 and 7 have collectively focused on answering both questions, a further discussion on the 'why' will assist in better understanding the rationale of the typology. In other words, why would the primary decision makers of the organization act the way they do to lead the organization in a particular strategic direction? A quick overview of the five strategic trajectories shall be carried out to highlight the issues of alignment between the owner-manager philosophy, the firm's business stance, and the business environment (in a concept akin to Mintzberg and Waters' [1985] *realized* versus *deliberate* strategy). The concept of the conditional lens had been adopted earlier on to visualize this alignment process. Firstly, taking the firms following a *controlled focus* strategy. These firms chose to specialize and to achieve an expertise based on the knowledge and experiences of the owner-managers. Two general situations were noted. One situation regarded more entrepreneurial owner-managers being induced to operate in this focused mode by adverse competitive conditions. Arguably these firms could succeed in diversifying if these limitations were overcome. Older firms showed a stronger match between the management philosophy and the business stance. Owner-managers here were in their right element, doing the job they loved and having little motivation to change the trajectory of the firm in a different direction.

Contained growth firms had a generally stronger match between the owner-manager philosophy and the business stance. These firms normally diversified cautiously from an FEO state to a RDO state, leveraging and building upon core competencies to provide a more complete product or service. Three situations, or levels, of strategic fit were evident between the management philosophy and the business orientation. There were those firms where the owner-manager philosophy was on par with the entrepreneurial stance of the firms, in these cases it is expected that the firms will maintain the strategy of contained growth indefinitely. There were also firms where the owner-managers exhibited a more entrepreneurial philosophy but the firms had built a certain strategic momentum in view of particular environmental conditions. In these cases the owner-managers could possibly change the organization's trajectory, but additional and sometimes scarce resources would be required for this. Furthermore, there were firms where the owner-manager would have to overcome experience and expertise limitations to be able to adapt the organization towards a more dynamic trajectory. Skilling, obtaining further experience, and even enhancing the size/configuration of the dominant coalition would be required here.

Firms following a *repositioning* trajectory had first grown through diversification but were later seen to be re-establishing their operations within a limited number of areas of core competencies. Two predominant situations induced this particular form of behaviour. One group of *repositioning* firms were being induced to consolidate by an increasingly competitive landscape, a situation that drove even the more entrepreneurial of owner-managers to protect the business's survival by re-establishing a focus on what the business did best. A second group of firms had a particularly unique situation where earlier owner-managers had expanded and diversified the business, and now had a different objective for the business units that were an outcome of the earlier aggressive diversification. These owners sought to place their focus elsewhere, and employed professional and loyal managers to run the business units for them, achieving stability, dedication and the various synergies that were required of the business units. Employed managers here were seen to be more conservative, focusing on efficiency and continuity more than on new business creation.

Firms that adopted a *dynamic growth* trajectory had the closest match between the owner-manager philosophy and the business orientation. Put more simply, dynamic firms were being run by entrepreneurial owner-managers. Surprisingly, these owner-managers would also want to be heavily involved in the operational issues of the firms, hence the size of the dominant coalitions here was the largest of all. This would allow the owner-managers to focus on both creating new business opportunities and in sustaining those opportunities created. This strategic approach resulted in firms that were growing rapidly and that had the largest net asset value and NAV growth of all. Owner-managers were also the most qualified and skilled. The argument has also been placed that these owner-managers will not necessarily have a more munificent environment that provides for easier growth and competitive success. Rather, the concept of environmental uncertainty has been put forward, meaning that owner-manager strategic behaviour is influenced by the perception of how the environment can be reacted to. As argued by Palich and Bagby (1995), people who exploit opportunities tend to frame information more positively and then respond to these positive perceptions.

Finally, a number of firms were observed to be following a *retrenchment* trajectory. These firms were in fact the oldest of all, and had the smallest size of dominant coalition. Retrenchment here meant shrinking into the smallest possible operating mode, without any real aggressive business objectives. A number of situations were seen to lead to this retrenchment. Some firms were run by a highly conservative owner-manager who had little other than survival and personal satisfaction as guiding objectives. Similarly to this case there was also the situation where the owners to the business saw the firm as no more than an extension of their family, and employed management to run the business in much that fashion. The two final situations are, however, where most of the *retrenchment* firms pertain. One group of firms was managed by owner-managers with a highly conservative nature and perceived an environmental hostility that they deemed to be insurmountable. The final group of *retrenchment* firms had an interesting situation where the owner-manager had a management philosophy that was evidently more innovative and creative than the static state of the firm. This appeared to be a premeditated case of hibernation where the owner-managers were awaiting a reason for revitalizing the firm, this often being the induction of a new family member. All in all the variations in owner-manager philosophical behaviour for the different orientations can be summed by the following quote by Ling, Zhao and Baron (2007 p. 674); "… *organizations move through different stages over time, with each stage posing unique challenges to the organization and requiring different management philosophies and approaches*". While cross sectional studies invariably fail to observe these changing patterns, it is not the case for some of the more qualitative research thrusts such as McCarthy's research, concluding that the "*risk-taking propensity of the charismatic entrepreneur changed over time*" (2003 p. 169).

A last observation is made on the concept of performance as applied to the small business. The typology has identified substantially different performance criteria for the different trajectories. Retrenchment firms will look towards survival or personal satisfaction whilst dynamic growth firms will look towards fuelling and sustaining growth, controlled focus firms will look towards customer satisfaction and quality of service… and so on. When understanding the logic of the trajectories, and just as importantly the philosophies of the owner-managers to the firms, these performance variations are most understandable indeed. The typology argues that different performance criteria matter for different owner-manager philosophical outlooks in different situations. This provides somewhat of a response to one of the most common criticisms placed in the direction of small firms at any conference on the topic; that small firm performance is extremely difficult to understand. It is… but only when the mistake is made up putting all the small firms into one static category. Try telling the semi-retired owner-manager of a *retrenchment* firm that he should look at profits and not long leisurely weekends, as his main performance measure! A clear analogy can once again be made to marketing, but this time to the consumer life cycle model used to argue an economic perspective towards understanding consumer buying behaviour (as opposed to the socio-psychological and behavioural models). What the model states is that different achievement criteria matter to a family at different stages of development, such as home acquisition at the growth stage or health and leisure objectives towards the decline stage. It is no less so in this case. In conclusion, for the small firm a different approach towards understanding performance has to be taken, one that first understands where the firm wants to go before trying to measure if it has actually got there.

Chapter 8: Conclusions and Implications

8.1 Outline of Chapter

This final chapter of the thesis is segmented into three areas. The first section is a summary overview of the thesis, and describes three expected (and incremental) contributions to the academic literature in the field of small business strategy. The first contribution is the establishing of a framework of variables that act and interact to explain the phenomenon in question; that of small business strategic behaviour. The second contribution is the utilization of these variables to establish a set of life cycle states that portray the strategic positions that a small firm can adopt. The third contribution is the mapping of a typology of common trajectories (summarized in *Appendix 10*) that small firms follow over time, moving between different life cycle states as the owner-manager, the firm and the competitive environment coalign. The thesis has been based on the premise, much recommended by Hambrick (2003), Mintzberg (2007) and Mintzberg and Waters (1985), of understanding strategy as a pattern of important decisions (or more aptly the evident actions resulting from these decisions) that guides the organization in its relation with the environment, affects the organization's internal structure and processes, and influences the organization's performance. This is a behavioural approach towards understanding strategy, and is based on the concept of understanding small business behaviour by looking at the strategic actions taken by the firm over time, the context and conditions to these actions, and the consequences and outcomes of these actions. It is an approach that is dependent on the application of a research methodology that can observe patterns, and by this meaning that the methodology can be used to build a picture that is based on both content and process. A behavioural model is appealing because behaviour is measurable (Mintzberg 2007) and is manageable (Covin and Slevin 1991).

A substantive model for small business strategic behaviour has been put forward, at a level of mid-range theory that defines a phenomenon within a particular environment. In fact, Merton (1957) and Glaser and Strauss (1967) argue that theories of middle range and well grounded in empirical reality are likely to be the most fruitful kind, as opposed to very narrow or very grand theories. The environment is that of a restricted competitive setting, as the research has been carried out on small firms competing within a small island state. Two further sections follow. The second section to this chapter is a summary of the implications that ensue from the learning gained, and from application of the trajectory-based model for small firm strategic behaviour. Implications for academics, for policy makers, and for managers shall be explored. The third section is a discussion on limitations, challenges and the way forward. Arguments focusing on description, prediction and generalizability shall be made.

8.2 Research Findings and Contribution to the Literature

8.2.1 A Framework for Small Firm Strategic Behaviour

The essential starting point of the research in question was a quest for a viable set of variables that could be applied to explain the phenomenon in question; that of the strategic behaviour of small firms. It has been argued in Chapter 5 that the identification of variables is indeed a challenge in itself, particularly due to the dynamic and often tacit nature of small businesses. To add to the difficulty, an argument has been maintained in the thesis that both *structure* (grounded theorists use this term instead of *content*) and *process* have to be included into the picture. For the more commonly applied research approaches that adopt a cross-sectional methodology, this is not an issue of debate; static pictures are obtained and the movements between these static snap-shots are subsequently inferred. The reluctance to include process into the equation is best explained by Corbin and Strauss (2008 p. 97), who note that "*the relationship between structure and process is very complex, leading to infinite variation in the intensity, type, and timing of action/interaction/emotional responses*". An example is in order, one that aims to explain the structure – process interaction visualized in Figure 5.3. Imagine, over the course of a morning, a queue of passengers waiting to buy tickets for continuously arriving trains at a station (Corbin and Strauss [2008] put forward an excellent example of a symphony of music being played to try and explain the concept). The station has provided attendants and a manned ticket booth to manage the ticketing and queuing process. Over the course of the morning the employees will be issuing tickets, controlling the queue, answering queries, monitoring progress, and so on. This is the *process* of 'actions'. A rush hour provides a sudden influx of customers, demanding a change in the urgency of actions being taken, moves to calm annoyed passengers, and a speeding up of the ticket issuing process. This rush hour gives an example of the changing *context* to the scene, as does the timeliness of arriving trains. The length of the queue, the satisfied or angry dispositions of customers, visual signs of motivation/despair of employees, all provide information on the *consequences/outcomes* to the picture. The *context* and the *consequences* are what Strauss and Corbin call *structure*, the actions are the *process*. The interactions between *structure* and *process* are easy to imagine, such as the effect of a slowdown of arriving customers on the actions being taken (i.e. less urgency, a more leisurely pace) and shorter queue lengths, or a change in actions due to demotivated staff (or a change of staff) on the queue length and on potential customers veering off to find a different source of transport. Thus *structure* affects *process*, and *process* in turn affects *structure*. One thus has a continuous flow of activity/actions, influenced by the context and in turn influencing the consequences, but with context and consequences also influencing subsequent activity/actions.

The Framework that was compiled (Figure 5.2) thus had to incorporate both *structure* and *process*, such that a dynamic picture of small business strategic behaviour could be developed. It had to include structural variables that described both the business context (and all possible conditioning factors) and the resulting consequences/outcomes to the business's actions. It also had to include *process*, that is, some form of measurement of the continuous actions/interactions taken by the business owner-managers. Reference is made to Figures 5.1, 5.2 and 5.3 that collectively attempt to explain the framework of variables, and their interactions. The variable set, established through the grounded theory method (detailed in Chapter 4), are batched into 3 categories; *strategic actions/reactions*, the *context and conditions*, and the *consequences and outcomes*. "Establishing" of variables means that they would appear consistently and persuasively in the data, providing the researcher with insights that are an integration of his own knowledge and what is conclusively evident in the data (the concept of abduction, as described in Chapters 4 and 5). As Chapter 5 provides a detailed description of the variables (and their interactions) this discussion shall focus on the more salient issues, particularly where the Framework adds an element of innovativeness to the understanding of small business strategy. First of all, one must appreciate that the Framework of variables cannot be applied, as is, in cross-sectional research where snap shot relationships are sought between independent, moderating and dependent variables. The time dimension underlying the Framework will not allow for this. Figure 5.3 attempts to depict this dynamic process of changing structure – process over time. In the previous train station example, this would have been seen as changing patterns of actions/reactions by the staff in accordance to an evolving context, and in turn influencing the developing consequences. It is these patterns that are of interest to the researcher, and is essentially what grounded theorists look for (Charmaz 2006 p. 82). However, there is only one way that is feasibly possible to measure a continuous pattern of actions, and that is to batch the actions into visibly consistent clusters. Time is of assistance here. In the train station example, this could be in early morning periods of slow queuing, then rush hour periods, and then, say, a later point when a bus load of mature, elderly travelers arrive. In each "phase" a different context would be seen, different patterns of actions, and different consequential outcomes. In the research in question this has been approached by "batching" the strategic actions of owner-managers into different periods of behaviour (initial, forming, mature…) that the research showed to be the most common, as depicted to the top of Figure 5.2.

For each phase of behaviour the firm will be positioned in a particular context and will create a particular set of consequences. In theory (and with the vast variable set in question, as shown in Figure 5.2), this would mean going back to contingency theory and having a practically unique medley of variables for each behavioural state. In practice, the ensuing research showed that patterns are not at all haphazard, and do not deviate wildly. Figures 5.3 attempts to illustrate this. Though actions/reactions were highly dynamic (simplified into five different phases of behaviour, each with their own strategic moves, actions, decisions…), the context and consequences were less so. This is visualized in Figure 5.3 by a more stable arrow (context, consequences) being acted upon by the more dynamic spiral of actions/reactions. The direction of the arrow would change, possibly move to a tangent, but not veer off wildly. An explanation for this comes by way of Figure 2.2 (replicated in Figure 8.2 in the forthcoming pages), where the perceived environment acts as a buffer between the actual environment and the actions of the owner-managers. The business's resource base would also act to condition the speed of reaction to environmental dynamics.

In conclusion, context and consequences can be looked at as more of an evolving picture than a range of entirely different situations. This can be seen in the resulting contextual and consequential variables, referred to in grounded theory as sub-categories and corresponding properties. The *context and conditions* category was shown to consist of 5 sub-categories with 25 distinct properties (reference Figure 5.2). Expectedly, owner-managers placed a lot of emphasis on their particular industry, on the local/regional environment, and on the global environment. Of interest, and particular relevance to the small firm, is the importance placed on the historic start-up situation and the ongoing ramifications that this induced (Geroski, Mata and Portugal [2010] provide empirical evidence of this trait). Most important of all was the detail and significance placed on owner-manager characteristics, particularly the owner-manager philosophy, values and behavioural traits. As established in the literature review and most evident in the research, these traits would be expected to be fairly stable over time.

The *consequences and outcomes* category (lower part of Figure 5.2) is where major differences will be found from the usual models of small business strategic behaviour (examples given in Chapter 3 and Appendix 2). As expected, organizational performance features as a consequential outcome. Reverse causality is not an issue here, although it does exist, as the adopted methodology does not demand any rigid demarcation between dependent and independent variables. Performance was shown to be a multi-dimensional construct and of a dynamic nature, as shall soon be argued. In addition, three stances emanated from the research, providing different views of the observable nature of the organization. Applying the train station example, stances could be seen in the rigidity and tightness of the queue, in the urgent and mechanistic nature of the ticket processing, in the resource setup being deployed to manage the process. The very nature of small business behaviour demands this stance-based approach (Fulford and Rizzo 2009), that has only really taken off so far in the mapping out of strategic behaviours of public sector organizations (see the works of Boyne and Walker 2004; Andrews, Boyne and Walker 2006).

Three stances were observed in the research, providing three complementary viewpoints of the emerging competitive nature of the small business. The engineering stance provides a picture of the core transformation processes within the firm, that is, the processes of transforming inputs into outputs. This could be, for example, highly mechanized or entirely knowledge based. The resource-based stance gives a picture of the resource bundle (or asset stock) that the firm would build up, looking at human, physical and organizational resources. The business stance is essentially the conservative – entrepreneurial mindset that the firm would be seen to be adopting, in its actions towards risk management, innovativeness and proactive initiatives. The three stances give entirely different, but highly complementary, pictures of the business posture adopted by the small firm. They follow the argument that *consequences/outcomes* to the small business are more than just the performance achievements of that business. They add a vital link to the understanding of the strategic behaviour of the small firm simply because they put a face to the firm, allowing it to give expression to the outcome of actions taken, and to the reactions to context.

8.2.2 Applying the Life Cycle Concept

Following the establishing of a framework of variables that act and interact to explain the strategic behaviour of small firms, two sequential tasks were carried out in this research, the second dependent on the first. Both adopt a typological basis, albeit in different forms and with different objectives. These two stages have been the focus of the preceding two chapters, and both aim to provide a knowledge contribution independently to the other. The first task, subject of Chapter 6, was to compile a typology of the most common strategic orientations being adopted by the 67 firms. The words strategic orientations and strategic states are used interchangeably in the chapter, and mean the same. The focus of Chapter 6 was to map the present strategic states of the firms, although obviously these were the result of previous actions and contexts (Figure 5.3 visualizes this). Once this "typology" of states was compiled, a study of firm movements between states could take place, and is the second task (the focus of Chapter 7) that aims to understand the strategic trajectories of the firms. The first task of identifying and explaining strategic states is actually no more than a life cycle analysis, the outcome of which is shown in the X-axis of the following Figure 8.1. A similar concept is used in the marketing literature on *product life cycle* (Kotler and Armstrong 2008), where a set of states exist (new product development, introduction, growth, shake-out, maturity and decline) as well as an established set of trajectories between states. In the present research four strategic states were evident; that of *small business orientation* (SBO), *functional efficiency orientation* (FEO), *related diversification orientation* (RDO), and *unrelated diversification orientation* (UDO). Table 6.1 outlines the predominant characteristics of the four states, summarizing the detail provided in Chapter 6. This is essentially a typological perspective, with firms falling into any one of the four strategic states at any particular point in time.

Looking at these four states from a life cycle perspective brings with it strong implications. The literature review has shown that there is a problem here, with researchers often adopting a blind expectation that firms will progress rigidly through birth, growth, maturity and decline (Smith, Mitchell and Summer [1985] provide an excellent example of this). The early literature on the topic (e.g. Burgelman 1983; Chandler 1962), with its "structure follows strategy" debate and focus on large firms, is a main source of this misconception. Two authors, however, contribute to clarify the meaning of "life cycle" to the small firm. Hanks et al. (1993 p. 7) describe life cycle states as more than just birth-growth-maturity-decline stages, but as a "*unique configuration of variables relating to organization context* *and structure*". Miller and Friesen (1984 p. 1177) argue that "*whilst the stages of the life cycle are internally coherent and very different from one another they are by no means connected to each other in any deterministic sequence*". In other words each state is a unique configuration of characteristics, and there is no prescribed sequence between the states. Ling, Zhao and Baron (2007) provide an excellent rendition of how business behaviour changes as a firm evolves through the different life cycle stages.

Another point of importance is the relationship between the individual firm's strategic actions (shown in Figure 5.2 to consist of initial behaviour, forming behaviour, mature behaviour…) and the four life cycle states already identified as *small business orientation* (SBO), *functional efficiency orientation* (FEO), *related diversification orientation* (RDO), and *unrelated diversification orientation* (UDO). The best way to understand this is by taking the four states to be a generalization of the individual firms' behaviours. In other words, Firm 1 may, for example, be enacting *mature* behaviour and be in a FEO state whilst Firm 2 may be enacting *growth* behaviour and be in an SBO state. So no matter what behaviours the firms would be enacting (from initial value-building actions to mature, competitive moves), they would always fall into one of the four life cycle states at a particular time. This is no more than the strategic group theory discussed in Chapter 3, where *generic strategies* are a generalization of common behaviours that span industries and cater for different types and sizes of firms.

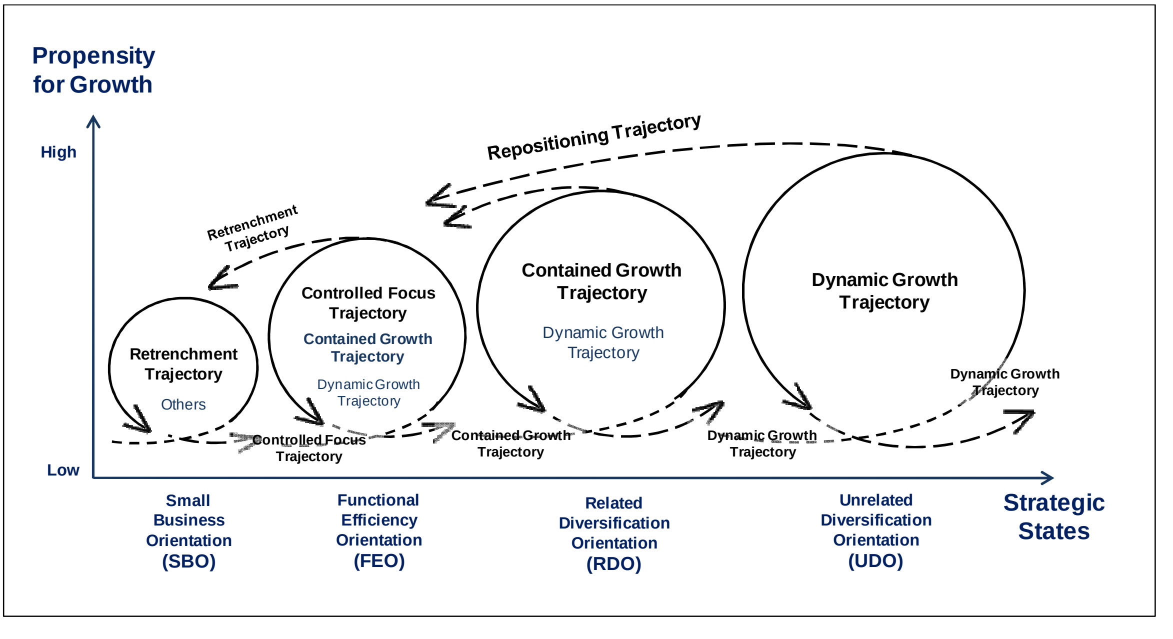


Figure 8.1: Strategic States and the Dynamic Trajectories of Small Firms

Of interest to note is how the four states pictured in Figure 8.1 (the X-axis) resemble the following four stages of (large) business growth described by Rumelt (1974): Stage 1, where a young business operates within a single industry and with a single product line; Stage 2, where the company diversifies into a range of product lines, becoming a dominant force in the particular industry; Stage 3, where the company diversifies into different industries but still within its core competencies; Stage 4, where the company diversifies further into industries and products that are unrelated to its earlier core competencies. This is where the similarity ends however, as there are fundamental differences highlighted in Table 6.1, that are particular to the small firm. Each strategic state brings with it a fundamentally different competitive landscape, with unique firm – owner-manager characteristics and behaviours. This is to be expected, and authors such as Masurel and van Montfort (2006) and Miller and Friesen (1984) have argued that "*as organizations proceed from one phase to another, they change a great many things – they undergo a highly multifaceted transition*" (Miller and Friesen 1984 p. 1177). A quick overview of the states is in order. The *small business orientation* state (SBO) consists of firms with usually just one owner-manager in the dominant coalition, a person highly seasoned in the business and exhibiting highly conservative behaviour (at least at the time of being in this state). Competitive conditions are difficult and the firm has adopted actions towards efficiency maximization, cost reduction and specialization in a very limited field. Opportunity costs are often high, and performance is more about survival and personal satisfaction. Firms are the smallest of all here by way of employee count. Firms in a *functional efficiency orientation* (FEO) state have a slightly larger dominant coalition, on average between one to two members. Owner-manager behaviour is somewhat less conservative, focused more aggressively on a limited range of products/services and with a highly routinised/specialized engineering stance. Dedicated resources and niche markets allow the firms to proliferate in what they do best, and to focus on mainly financial achievements. Firms are second smallest by way of employee count.

A more entrepreneurial firm behaviour is seen for firms in a *related diversification orientation* (RDO) state. Firms here cautiously diversify into technologies and products/markets that are related to the core areas of business operation. A two-staged strategy is adopted of first building core competencies and then leveraging these competencies to move into complementary areas that then provide additional synergies. Again the dominant coalition is on average one to two persons, with a higher level of entrepreneurial aptitude. High determination, drive and control characterize the owner-manager behaviour. Performance is more diversified, with a stronger focus on building and sustaining a strong consumer portfolio. Firms are second largest. The final state, that of *unrelated diversification orientation* (UDO), shows firms that are the largest by far, but are still young and vibrant and managed by the largest dominant coalition of all (on average 2.33 persons). Firms are working in the margin, diversifying into industries and product/markets alien to their areas of initial business expertise. Surprisingly, owner-managers seek to retain a strong-hold on the daily operations of the firms, being reluctant to delegate any real management powers. Firms are more technological and owner-managers are more academically qualified. These firms are the largest from all perspectives, and are highly focused on growth-related achievements.

Two issues stand out in the argument in favour of looking at the four strategic states as important stages in a small firm's life cycle. The first issue regards taking the firm as a unit of analysis and the owner-manager as a separate unit of analysis. The second issue looks at the coalignment of these two units of analysis, and with a third parameter; the competitive landscape. Taking the first issue, reference is made to the ongoing debate in the literature, as detailed in thesis sections 2.4 and 2.5. The small business literature places a strong argument in favour of looking at the firm as an entrepreneurial being, with innovative, proactive and risk oriented behaviours that range in a continuum from very low to very high. The literatures on Entrepreneurial Orientation (EO) and Resource-based Theory support this thesis, as have the current research findings. The literature, however, also recommends looking at the behaviour of the owner-manager of the firm, and separately observing his/her entrepreneurial behaviour as ranging from highly conservative to highly entrepreneurial. The argument here is that owner-manager characteristics will significantly influence the behaviour of the small firm. However, these characteristics need to be understood, and consist of core values (or life issues) and psychological traits, that impact upon the owner-manager's cognitive – heuristic behaviour, ultimately influencing the decision making process. The research has observed much of what has been stated in the literature, both for the firm and for the owner-manager to the firm. However, a delicate balance between the two units of analysis (the firm *and* the owner-manager) was also observed, a balance that takes into consideration what Shane and Venkataraman (2002) would call the transitory nature of entrepreneurial behaviour. This is where the concept of coalignment comes in, an issue that has been inadequately tackled in the strategy literature on small firms.

The research under discussion in this thesis has identified different owner-manager characteristics and configurations for the different strategic states. Firms in a UDO state had a team of two or three owner-managers, with an integration of both high and low entrepreneurial philosophies. On the other side of the continuum, firms in a SBO state had one owner-manager acting in a conservative way, but who could also show signs of an entrepreneurial philosophy. FEO and RDO firms were somewhere in between, so the focus here shall be placed on the SBO – UDO extremes for discussion purposes. The argument has already been made in Chapter 2 and 6 that a manager with an entrepreneurial philosophy can adopt a conservative stance, but that the converse cannot happen (core values and psychological traits will not allow for this). Thesis Section 2.6 and particularly Figure 2.2 adds an important part to the puzzle; the way in which the owner-manager interprets and acts towards the competitive environment. The tendency for small firm owner-managers to want to be in control, to avoid true management delegation, and to be involved in both strategizing and in implementation adds the last jigsaw piece to the puzzle. At the entrepreneurial side of the continuum, the owner-manager team had the entrepreneurial characteristics to perceive positive opportunities in the competitive landscape, and to act upon these by forcefully implementing even the most aggressive of schemes. The entrepreneurial–conservative dichotomy within this UDO team allowed for an excellent balance between creating new value and in sustaining what was being created.

In order to better understand the drivers behind this behaviour, a number of themes must be integrated; the owner-manager's core values, her cognitive process of receiving and deciphering information, and the environment (both perceived and objective, reference made to Figure 2.2 that has been replicated in the following Figure 8.2 for convenience). Core values in at least one member of the UDO dominant coalition would contain strong entrepreneurial traits. Information gathered from the objective environment would be perceived in a positive light due to these traits, particularly since a component of this information (shown in Figure 8.2 as feedback from the 'business outcomes') contained the knowledge that there were additional strengths that the firm possessed to implement value-creating schemes. The source of these additional strengths would emanate mainly from the more conservative, dogmatic component of the dominant coalition. The dominant coalition would adopt a cognitive form of behaviour that perceives these positives, interprets them in a positive way, and acts upon them in a positive way. The strength of the multiple-member team in successfully applying the value-creating ventures would serve as a feedback loop, further strengthening perceptions and cognitive behaviours. This is no more than Meglino and Ravlin's (1998) concept of value congruence, where dynamic growth coalitions effectively perceive, and act upon, a different business environment.

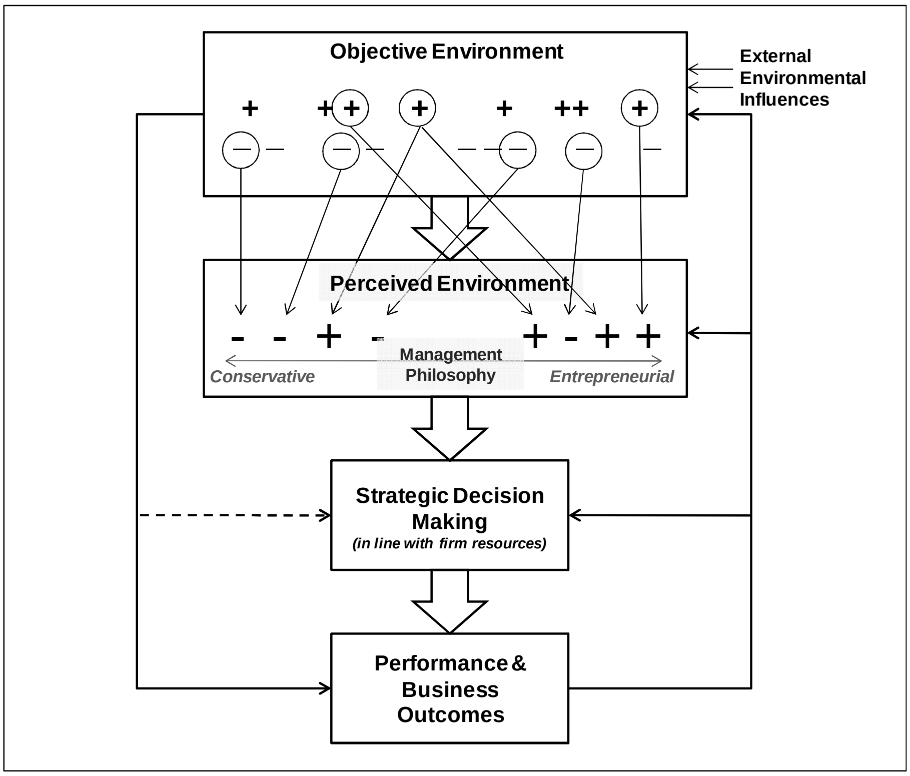


Figure 8.2: The Perceived Environment, Owner-manager Characteristics, and Firm Behaviour

At the other end of the continuum, an SBO owner-manager with a conservative philosophy would simply not perceive the same positive opportunities in the environment. The way Miller, Kets de Vries and Toulouse (1982 p. 238) put this is that "*executives who are more given to feelings of helplessness and passivity will be more conservative, reactionary and risk averse*". An SBO owner-manager with more entrepreneurial tendencies would perceive the positive external environmental opportunities, but would also perceive internal weaknesses such as a lack of adequate dominant coalition structure to be able to act successfully on positive opportunities. In fact, in a number of cases, SBO owner-managers admitted to being in a state of waiting, that is, waiting for a new member to join the dominant coalition before attempting to regenerate the organization. A positive picture is still being seen, but in this case it is somewhat into the more distant future. This is an interesting and unexplored "time dimension" concept of small firm motivation and implies that entrepreneurial owner-managers are always motivated to take entrepreneurial actions, but that not all actions will be immediately apparent (or immediately taken).

Entrepreneurial owner-managers acting conservatively due to high opportunity costs elsewhere (or a highly deterministic objective environment) would also adopt this pattern of behaviour. Towards the middle of the SBO–UDO continuum, FEO and RDO owner-managers would have moderate entrepreneurial philosophies, and, in consistency with the above arguments, would adopt efficiency or innovativeness behaviours in accordance to their perceptions and cognitive mind-sets. What is evident here is coalignment; dominant coalition characteristics successfully in line with the firm's characteristics, that are, in turn, properly aligned with the competitive landscape. This is also the concept of equifinality, where different forms of successful coalignment can exist in parallel.

In conclusion to this argument, Hanks et al. (1993 p. 25) provide an excellent rejoinder on the concept of life cycle evolvement: "*A valid life-cycle model could be of great value to those managing emerging growth firms. It could provide a road map, identifying critical organizational transitions as well as pitfalls the organization should seek to avoid as it grows in size and complexity. An accurate life-cycle model could provide a timetable for adding levels of management, formalizing organization procedures and systems, and revising organization priorities. It could help management know when to let go of cherished past strategies and practices that will only hinder future growth*". The arguments put forward so far also go some way in resolving a recurring issue in the literature regarding omitting SBO firms from the equation (e.g. McCarthy 2003), simply because they taint the established field of entrepreneurial firm behaviour. This thesis has argued otherwise. SBO is seen to be a valid life cycle state, just as much as RDO or UDO states. The issue of coalignment, inadequately researched due to the predominance of cross-sectional methodologies, explains how successful owner-manager – firm configurations can exist as different states within the SBO – UDO continuum.

8.2.3 Adding the Trajectory Perspective

The second of the two sequential tasks carried out in this research (the first being the establishing of life cycle states, shown as the X-axis of the following Figure 8.3) was to map out the common trajectories of strategic actions taken by the firms under study. This was the topic of Chapter 7, with a summary provided in Figure 7.15. Figures 8.1 and 8.3 depict the trajectories in a somewhat different format to that of Figure 7.15, using a spiral-based approach to visualize the way in which the small firms appeared to oscillate within, or between strategic states. Three main issues stand out in this trajectory-based approach; that of motivation of owner-managers, performance implications, and coalignment characteristics. These will be discussed in brief for the five predominant trajectories that were observed (individual firm trajectories are shown in Appendix 9).

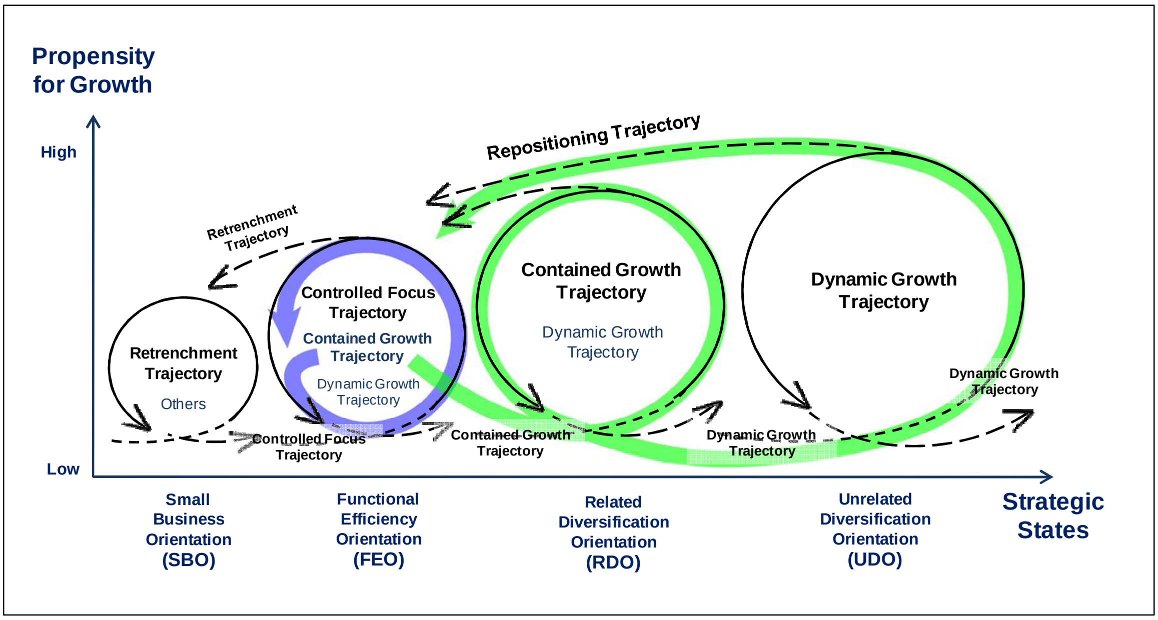


Figure 8.3: Highlight on Two Trajectories; *Controlled Focus* and *Repositioning*

The first trajectory under discussion, that of a *controlled focus*, is highlighted in blue in Figure 8.3 above (for all five trajectories see *Appendix 10*). This is an "efficiency-oriented" form of strategic behaviour that was observed for 15 of the 67 firms under study, entering it from either an SBO or FEO life cycle state. Firms would thus oscillate within a final FEO state, changing in size as new projects came in and market shares grew or shrunk. Firms were predominantly service-based and operating in local markets, explaining the fact that these firms were amongst the smallest by way of net asset value (NAV), of NAV growth, and of employee count. Owner-managers would have created a business based on their core skills and experience, and would build and sustain barriers of entry through specialization, enhanced efficiency drives, and through controlled niche markets. These owner-managers were in their element, doing what they knew how to do best, and what they enjoyed doing. As competition increased, the owner-managers would look towards enhanced specialization and increased quality drives to win and sustain customers. Often, owner-managers would opt to lose customers that wanted a cheaper product than lose out on their established reputations for quality of service. An important statistic was the age of these firms, as they were the youngest of all (see Table 7.1 and Figure 7.4). Tying with this statistic was the fact that the oldest of these firms had the closest owner-manager – firm strategic fit. In other words, for these firms, the moderately conservative management philosophy matched this rather static FEO life cycle state; owner-managers had no motivation to move out of the state and into a state of further growth. Younger firms in the cohort sometimes had owner-managers with more entrepreneurial traits, this hinting that these firms could, in the future, adopt a different, growth oriented trajectory.

The engineering and resource-based stances that were visible for the *controlled focus* firms supported this business stance. Routinised and specialized engineering functions were focused on a core process or activity, often the same activity that the owner-manager would have specialized in, in the first place. Resource basis were complementary to the engineering function. Human resources were skilled, dedicated and experienced. Physical resources were geared towards efficiencies based on standardization and repetition. Structures were flat but centralized. Organizational resources showed mechanized procedures and a culture based upon a belief of providing a high level of customer service. Subjective performance measures quoted were mainly the achieving of a satisfactory turnover and achieving customer satisfaction. Objective performance measures complemented these, and showed firms with a very low NAV growth and an average NAV that was by far the smallest for all firm trajectories (see Table 7.1 and Figure 7.15 for a comparison). In conclusion, these were firms with a mission; that of proliferating in what they did best, even if this meant stagnation in growth. A recipe for growth was also evident in the firms that had a mismatch between the management philosophy and the firm's conservative stance. In other words, moving out of the FEO life cycle state and into a RDO or UDO state was indeed possible (if so desired, that is). Two growth trajectories, to be discussed, will explore this scenario.

The second trajectory to be discussed is one of the two growth trajectories; that of *contained growth*. In Figure 8.3 this would be seen by firms gradually moving out of SBO and FEO life cycle states, and into an RDO life cycle state. 13 of the 67 firms followed this trajectory. Firms would then maintain their position by cycling within this moderately entrepreneurial RDO state. *Contained growth* firms were usually run by one owner-manager, sometimes two. Firm age, as well as NAV, were average for the complete sample of firms (at 21 years and €0.6M, see Table 7.1). NAV growth was positive (+33% over a 5-year period), yet tapering off towards the final years (see Figure 7.7). The strategy adopted by owner-managers was to first ground the firm in a core engineering process/activity (whilst in the FEO state), and then launch additional but related activities that were complementary to this core process. This approach also served to build and sustain a loyal customer base due to the synergies that the related activities/products brought about, and actually allowed the firms to be more selective in their choice of customers. The experience and skills of these owner-managers were seen to be in excess to those of the previously described *controlled focus* cohort. There was a greater level of strategic fit between the management philosophy and the firm's entrepreneurial stance. This meant that more entrepreneurial owner-managers were managing these moderately more entrepreneurial firms. However, similarly to the case of the previous *controlled focus* trajectory, there were also owner-managers that demonstrated entrepreneurial traits in excess to the RDO life cycle state that these firms had entered. The small size of the dominant coalition (more often one person than two) made two major growth constraints somewhat difficult to overcome. These were organizational momentum and owner-manager skills/knowledge limitations. A larger dominant coalition shall be shown to be an effective way of circumnavigating these difficulties.

Again, and as expected, the engineering and resource stances supported the business stance adopted by these firms. Often the engineering stance showed firms that were capable of moving up and down the industry value chain, vertically integrating to an extent. This allowed them to provide products/services that were complementary to the initial, core area of expertise. There would be a wider range of complementary resource endowments, such as multi-skilling of human resources, more professionally set up physical resources, and more synergies in the organizational resources. Customer-based performance measures became more important, such as building up and sustaining a loyal customer base through a differentiated product and strong brand identity. More select customers demanded a more inclusive or specialized product, and were ready to pay a premium for this. Positive NAV growth supported this approach, and demonstrated how the firms could successfully thrive by adopting this particular trajectory. To summarize, firms following this trajectory had found a formula that served them well. The modest diversification was a risk mitigating measure, yet allowed for access to niche markets that required a more complete, diversified product. Firms could survive indefinitely in this trajectory, constantly expanding upon related activities and products/services. They could also move into a more aggressive trajectory, or backwards through a more conservative trajectory, as will be discussed.

The third trajectory that firms adopted is the *repositioning* trajectory, shown in green in Figure 8.3. The largest cohort of firms (19 in all, see Table 7.1) followed this expansion – contraction trajectory, that is a good demonstration of how the life cycle states (SBO, RDO, etc) cannot be used in isolation to describe the dynamics of small firm strategic behaviour. Firms would have started their journey in a more conservative FEO state, moving into a more entrepreneurial RDO state (or even a highly entrepreneurial UDO state), only to reposition themselves in a FEO state. So although the final state is the same as that of firms following a *controlled focus* trajectory, the *repositioning* trajectory (and the motivators behind it) are widely different. Repositioning firms were the oldest of all and had built the second highest net asset value (average age at 28 with an average NAV of €0.66M, see Table 7.1). The firms were run by either one or two owner-managers (average of 1.53). The logic of the trajectory is one of an initially focused competitiveness, with subsequent drives to expand and diversify into either related or unrelated products/services and industries, but then an even later decision to contract back into a functional efficiency state. The obvious question is why would a small firm dedicate precious resources and expose itself to a higher risk scenario, only to revert back to its initial competitive state? Analysis of the firms in question showed three distinct reasons. A few of the firms had acted entrepreneurially, but beyond the more conservative philosophy of their owner-managers. The strategic mismatch was felt, and owner-managers hastily re-focused on their core competencies. Arguably firms may fail here due to the exposure to harsh competition and a difficulty to operate at this heightened entrepreneurial state with a limited dominant coalition. A second situation existed; highly entrepreneurial owner-managers that were being faced with very adverse competitive conditions, and saw no alternative but to (temporarily) refocus on their initial, core competencies. The third situation was unexpected, but most interesting. The persons managing this third sub-group were no longer owner-managers, but professional managers pulled in to run the business in an efficient, albeit systematic, manner. The entrepreneurial persons that had created the firms in the first place were now refocusing elsewhere, and required stability in the initial business and the benefits that this would provide towards their new incentives.

As evident, there were a number of different motivators for the *repositioning* firms to act the way they did, inducing them to redirect their engineering and resource-based stances to their initial configuration. Subjective performance descriptions provided by owner-managers were somewhat generic, looking towards stability measured by sales/turnover, efficiency in operations, and effectiveness in launching projects. The objective NAV figures provided a more in-depth picture. The high average NAV and age of the firms showed businesses that had accumulated wealth over time, and now were retracting to a form of competition that they felt secure in. NAV growth took on two distinct patterns, as shown in Figure 7.10. The firms that were forced into repositioning due to competitive conditions had a lower NAV growth, at 34% over a five-year period. Firms that had professional managers pulled in were experiencing more scattered, but steeper NAV growths, at an average increase of 50% over a five-year period. Possibly this was a motivator for the initial entrepreneur of these firms to apply his/her skills elsewhere, whilst seeking a guaranteed continuation, stability and financial support from the initial firm.

The fourth trajectory is that of *dynamic growth*, a path taken by only 6 of the 67 firms. Most *dynamic growth* firms started off from a FEO state, passing through the RDO state, and into a dynamic UDO state. This meant that the firms were competing in industries and product/markets that were unrelated to their initial areas of expertise. Firms were the second youngest, but the largest by far by way of employee count and NAV (Table 7.1 shows an average age of 18 years and an average NAV at over double that of any other trajectory). The firms also had the largest dominant coalition (average 2.33 persons), and it has previously been argued that it is this coalition size that allows firms in a UDO state to compete so aggressively and effectively. Owner-managers were highly skilled, experienced, and academically qualified, and the businesses were generally in mid to high-technology industries. The dominant coalition team would be heavily focused towards creating value and then aggressively maintaining the engineering stance and resource base required to sustain that value. This is also the trajectory that boasted the best level of strategic fit between the owner-manager philosophy, the entrepreneurial behaviour of the firm, and the competitive environment. In fact, Thomas and Ramaswamy (1996) empirically observe that a strategy – manager match provides a greater impact on performance than a host of other variables such as firm age, size and industry conditions. Figure 8.3 shows the *dynamic growth* trajectory to oscillate from any prior strategic state, ending up in the largest trajectory loop. Firms could take on two possible alternatives from this point onwards. They could either grow beyond the remits of a small business (i.e. employing more than 49 employees, thus effectively looping out of the window shown in Figure 8.3). Alternatively, firms could be directed by their owner-managers to adopt a subsequent *repositioning* trajectory, either due to a refocus by the initial entrepreneur, or as a temporary measure due to increasingly adverse competitive conditions.

The final, fifth trajectory is the complete opposite of the above *dynamic growth* trajectory, and has been named the *retrenchment* trajectory. As shown in Figure 8.3, the 14 firms following this trajectory either entered a SBO state from an earlier FEO state, or alternatively would always have existed within this SBO state. These firms were amongst the smallest by way of employee count and NAV (average of 7 employees and an average NAV of around €0.3M, see Table 7.1), but nearly the oldest with an average age of 27 years. The firms also had the smallest size of dominant coalition, with usually just one member. NAV growth was the lowest of all, even negative for some firms. Subjective performance targets mentioned were the obtaining of stable revenues, survival and personal satisfaction. These were the kind of firms entering the “contaminated” lifestyle state, a competitive stance that is often looked upon by researchers as a failed, or inconsequential, form of entrepreneurial behaviour. The grounded theory research, however, uncovered some interesting nuances for this strategic trajectory. There were, in fact, three predominant situations inducing a firm to follow a *retrenchment* trajectory (five are mentioned in Chapter 7, the main three being discussed here). Firstly, there were a few firms that purposely chose to exist within a SBO state, here one would find a close match between the static SBO state and the highly conservative nature of the owner-manager. Owner-managers that operated small firms on a part-time basis would be expected to fall within this category. There would also be situations where a more entrepreneurial owner-manager would be faced with a competitive environment of (perceived) insurmountable odds. Even the conceptual model in Figure 8.2 would allow a highly negative objective environment to sway the more optimistic behaviour of an entrepreneur into a retrenched, conservative behaviour (visualized through the dotted line). The third situation is one of hibernation, where more entrepreneurial owner-managers were easing back in the anticipation of inducting a new owner-manager (often a family member) into the business. The SBO state was, in this case, a temporary life cycle state. The various rationales for following a *retrenchment* trajectory demonstrate why this form of strategic behaviour should not be taken as a separate “hobby-oriented” form of business behaviour, or as Miller (1983) would call it; that of a “simple” firm.

8.2.4 Methodological Implications

There appears to be one reason alone for the paucity of conclusive empirical work on the strategic behaviour of small businesses; that of methodology. Reference is made to Figure 4.2 that compares fine and coarse grained research methodologies, and includes the hybrid methodology. Coarse grained methodologies using cross-sectional, multivariate techniques are most commonly deployed in small business strategy research (e.g. Aragón-Sánchez and Sánchez-Marín 2005). They will give an excellent snap-shot of what is going on, are strong on the important requisites of prediction and generalizability, but fundamentally weak in description… at least the form of description that merges *content* with *process* to explain “why” what is happening is actually happening. One again quoting from Strauss and Corbin (1998 p. 127); “*process and structure are inextricably linked, and* *unless one understands the nature of their relationship (both to each other and to the phenomenon in question), it is difficult to truly grasp what is going on*". At best the methodology, through common use of factor/cluster analysis, can create a sequence of cross-sectional pictures of a dynamic phenomenon, and infer the changes that occur between (Desarbo, Grewal and Wang 2009). Due to the predominant use of quantitative research techniques, many of the nuances particular to the small firm have gone unnoticed. A good example of this is the cross-sectional research by Entrialgo (2002) on SME's, concluding that a positive relationship could be seen between entrepreneurial managers, entrepreneurial firms and performance, but that an understanding of what was going on was lost at the conservative end of the continuum where there was a more complex interaction of both entrepreneurial and conservative owner-managers. A similar example is that of Barkham et al. (1996), in a study of small business growth in the U.K. The authors excluded 'soft data' such as owner-manager motivations from the final analysis, arguing that it would be difficult to quantify this kind of data. Cross-sectional studies also suffer from another, more fundamental problem; that of bias due to the application of conceptual frameworks based on pre-defined variable sets. As Ketchen et al. (1997) put it, by adopting this approach you will get exactly what you are looking for (or a confirmation that what you are looking for is not there), thus limiting truly innovative learning that is urgently required for an understanding of small business strategy.

On the other side of the continuum we have the fine grained methodologies, such as case and longitudinal studies. The amount of time and resources required for such studies, particularly those that span a wide time period, often make them a distant preference to quantitative studies. The focus is usually a single unit, such as a firm, an entrepreneur, or a small grouping of like units. As argued by Kisfalvi (2002), these longitudinal studies are an excellent tool for observing and combining the evolving process over time with the content of a firm's situation. One has but to see Mintzberg and Water's (1982) seminal paper that maps the processes and content of a retail chain's strategic behaviour over a 60-year period. The methodology is extremely strong in description, somewhat limited in prediction but intrinsically weak in generalizability. Typologies rarely emanate from these studies, making them difficult to infer to larger populations.

The third option, that of a hybrid methodology (not to be confused with mixed methods), is somewhat of a merge of the two prior methods. It involves a select number of cases (often between 20 to 30), far fewer than that of a cross-sectional study but substantially more than a single case/longitudinal study. It is usually qualitative and inductive in design, but may pull in quantitative data for triangulation purposes. Hybrid methodologies such as the one adopted in this research (grounded theory, that is) look at *content* and also look at *process*. They are predominantly interview-based and, if implemented correctly, will solicit details from the respondent regarding what happened over time, why, what were the influencing factors, and what were the outcomes. The empirical literature, in fact, provides few examples of the use of grounded theory to map out patterns of business-related behaviour, although the method of enquiry is ideal for doing just that; mapping out patterns (Charmaz 2006). One noticeable exception is the study of Dainty, Bagilhole and Neale (2000) on the career paths of women in the UK construction industry. A similar trajectory-based approach to the present one was used, in which respondents highlighted significant career stages and sketched a graphical representation of their careers as they moved between stages, showing distinct and important differences in male and female career trajectories. Schwarz and Nandhakumar (2002) provide another good example relating to strategy. Furthermore, a constructivist grounded theory approach such as that adopted in the present research provides additional value, as "*constructivist research imbues strategy with an important sensitivity to context, history and perspective, and offers us insights that are not possible from realist or empiricist research*" (Mir and Watson 2001 p. 1172). In conclusion, it is being argued that dynamic patterns of strategic behaviour can only be observed if the right research methodology is applied, otherwise the academic community will continue seeing more and more of the same.

8.2.5 General Comments on the Concept of Strategic Trajectories

The trajectories that have been observed point towards a new perspective of small business coalignment, one contingent upon the dominant coalition composition and philosophy, the state and behaviour of the firm, and the environmental conditions. On the argument of why people with evident entrepreneurial traits will engage in different levels of entrepreneurial behaviour, Shane and Venkataraman (2000 p. 223) come up with a response. They argue that entrepreneurial behaviour is situational, that an entrepreneur's "*decision to exploit an opportunity involves weighing the value of the opportunity against the costs to generate that value and the costs to generate value in other ways*". Opportunity costs come in here, such as the opportunity cost of leisure, or of achieving more valuable returns than may be offered by the firm, or of simply waiting for a more advantageous competitive situation to emerge. The previous discussion has put forward one particular argument; that there will be different motivators, and different perceptions of the internal/external competitive environment, that will induce owner-managers to behave in different ways. Each life cycle state is, indeed, a totally unique coalignment situation, with different motivators, different performance objectives, different internal and external competitive conditions, and so on. By moving in a trajectory between life cycle states, owner-managers would be following a pattern, one of five possible patterns to be exact. Each pattern is an established flow of movement between life cycle states, with established conditions and established consequences. Actions being taken by the firm can now be better understood by looking at their direct outcome, visible in the engineering stance and the resource-based stance. Reference is made to Mintzberg's (2007) realized versus intended strategies, that argue that a firm's strategy can be derailed by emerging outcomes. Having a typology of trajectories at hand allows the owner-manager to understand the possible change in strategic direction, to pre-empt the consequences, and to even attempt to moderate the conditions, if so desired.

The five identified trajectories can be looked at as five main templates that a small business owner-manager may adopt. Other trajectories may be taken that are a compilation of these principal templates. However, in a bid to be as parsimonious as possible an argument is placed in favour of a typological approach to understanding the trajectories. For example, firms going through *contained growth* and then repositioning into a *functional efficiency orientation* would be classified alongside firms going through *dynamic growth* and also *repositioning* into a *functional efficiency orientation*; both firms would be classified as following the 'repositioning' trajectory. Also, it is important to note that three of the five strategic trajectories do not lead to growth, and the fourth to only moderate growth. This goes against fundamental economic theory that argues that the objective of a firm is profit. However, the results are in no way unique. In a similarly conducted qualitative study of small businesses to the south of the United Kingdom (90 manufacturing firms, mostly at below 20 employees) it was observed that few firms were prepared to grow further. In fact, "*the small firms under review appeared to ignore and even avoid opportunities for improved financial performance"* (Hankinson 2000 p. 98). The long hours of work coupled with a determination to minimize delegation appeared to be more important for the owner-managers concerned. On small business research, Curran and Blackburn (2001 p. 45) in fact observe that "*it is common in economic studies of small business performance to assume owner-managers are profit maximizers reflecting the assumptions fundamental to classical economic theory. However, studies of real-life small business owners show that profit maximization is rarely a prime motivation in the way they operate their businesses*".

A comparison of the trajectories uncovered can also be made with a study with similar objectives (on SME's in Australia; McMahon 2001), also looking into strategic trajectories albeit using more rigid quantitative techniques. The study concluded that 70% of the sample demonstrated a low growth pathway, 25% a moderate growth pathway, and 5% a high growth pathway. McMahon (2001 p. 209) argues that the small quantity of high growth SME's is "*in accord with the observed rarity of substantial growth amongst SME's world-wide*". The present research has similarly seen 72% of the small firms demonstrating low growth (the *controlled focus* firms, *repositioning* firms and *retrenchment* firms), 19% demonstrating moderate growth (the *contained growth* firms), and 9% demonstrating high growth (the *dynamic growth* firms). The methodological differences between the two studies are, however, significant, as the McMahon study is based upon panel data and the application of multivariate techniques, primarily cluster analysis. Pre-defined attributes were applied to study snap-shots of longitudinal data, and strategic pathways were inferred to confirm the existence of expected life-cycle patterns. The present study has no urgency to prove or confirm pre-established theoretical models. Whilst it is interesting, even important, to compare the findings with existing (albeit rare) empirical literature, the present study is not dependent on the literature with an aim to prove or disprove what is already established. Grounded theory has a different objective; that of integrating (and enhancing) the researcher's understanding of the phenomenon with what is convincingly apparent in the data. The four life cycle states, and the five common trajectories between these states, were not an attempt to confirm what is already known, but a bid to explain what was truly happening in the substantive area of enquiry. A parsimonious model describing small firm strategic behaviour was sought.

8.3 Implications to the Various Stakeholders

One of the major problems relating to small firms regards perception; perception that small firms are simple firms, that small firms are price takers working in near perfect competition, that for the small firm there is no strategy, only the whims and actions of the owner-manager, that conclusions applicable to large firms can also be proportioned to small firms, and so on. On researching small firms, Curran and Blackburn (2001 p. 5) sum up the common sentiment very well; "*Small does not mean simple. Neither is a small business a scaled-down version of a large business. A small number of human beings engaged in a common endeavour can create very complex, subtle interactions. Unravelling the underlying meanings and patterns of these interactions can be far from* *straightforward*". One could go as far as argue that understanding small business strategy, with its dynamic implications, is in fact far more difficult than in visualizing the strategy of a larger, more bureaucratic organization. Formal planning, such as strategic or business planning, is of little help here, and is rarely utilized by small businesses other than for fund acquisition purposes. Evident structures of the business may very well explain the strategies of larger businesses (this is where Chandler actually started off his strategy quest!), but will divulge little for the small business that often operates through a flat, centralized configuration. Assuming that the strategy of the small business is the same strategy that is in the mind of the owner-manager is another fallacy. In a bid to cater for these weaknesses and misconceptions, a model for small firm strategic behaviour has been proposed (Figure 8.1), one that looks at patterns in the form of common trajectories passing through a limited set of life cycle states. Implications for the application of this model are discussed below, with a focus on four important audiences for small business research:

8.3.1 Implications for Academics and Researchers:

Description, prediction and generalizability of findings would allow academics to understand the phenomenon and to apply the learning through teaching materials, consultancies and further research. Practically all academic courses on strategy adopt one of two bases; that of industrial organization economics (focusing on a few large oligopolies) or that of strategic management (which is a more practical derivative of the first school, and incorporates many of Michael Porter's teachings). Both schools are based on one underlying concept; that of strategic momentum. The small firm, although catering for over 90% of the population of businesses in most industries, is relegated to the backbench and is looked at as a "simple" or "lifestyle" establishment. The job creation, value adding, innovation providing functions of the small business are so quickly overlooked. Academics need a tool to overcome this inertia, and the tool needs to be easily understood and applicable. Typologies are the ideal solution to this, and are used almost religiously in all social science fields. Anyone who has studied even basic strategy will quote *Porter's Generic Strategies*, even though Porter (1980 p. 34) himself highlights the weaknesses in the generalizations provided. Typologies will be found in marketing (the five marketing orientations), in economics (groupings of firms based upon industry concentration), in organizational behaviour (the various classical and neo-classical schools), and so on. The model provided for small business strategic behaviour (Figure 8.1) should hopefully provide academics with a tool to explain how small businesses act strategically, why the actions are taken, and what would be the consequences of the actions. A major issue on consequences is that of organizational performance. The argument that has been placed in this thesis is that the performance of the small firm is not (as repeatedly stated in conferences on SME's) almost impossible to measure. The logic is that only by understanding where the small firm is trying to go, can one measure if it has actually got there.

There is also the issue of applying the learning provided by the model for future research purposes. The Framework developed in Chapter 5 is a framework of strategy variables, a variable set particular to the small firm and emanating from the grounded theory research on small firms. It can, however, be extended to allow for additional "strategy-oriented" research. For example, various attempts are made by researchers to study functional level (as opposed to business level) strategies, such as a firm's human resource management strategy or its I.T. strategy. The same Framework can be applied, but with grounded theory now focusing more intensely on sub-categories to the engineering stance, or on the resource-based stance, that relate to the new phenomenon under observation. Coalignment once again comes in (and arguably cannot be avoided), such as the dynamic coalignment between the small firm's strategic behaviour and the firm's more functional I.T. strategy. Simplifying what is obviously a complex scenario; imagine a firm attempting to adopt a *dynamic growth* trajectory within a high-tech industry, yet visibly deploying I.T. initiatives that do not allow for flexibility or expansion. Various other strategic alignment initiatives could be studied in this way. Again, the argument that *structure* and *process* both have to be integrated into the research approach is made.

8.3.2 Implications for Policy Makers and Other Governmental Stakeholders

Policy makers would consist of government bodies, or legally appointed institutions, that have an interest in the behaviours, successes and failures of small businesses. Public educational departments, regulatory institutions, funding bodies, and policy making offices are all stakeholders to the small business. The interests of these stakeholders are far more complex than a simple brief to maximize the benefits to small businesses. Funds are always scarce, business operating space is limited, political pressures to support the "more important industries" will always be there, and so on. Governmental stakeholders will always end up satisficing, as maximizing is not generally possible. Policy makers do not need assistance to distinguish high growth industries from low growth industries, they will already have this information. They do, however, need to be able to understand what characteristics allow a small firm to survive, to grow, and to provide a return on support measures provided. To expand upon this theme, take the actions that most governments adopt to group like industries within select industrial estates. In Malta one will see high-tech businesses placed in the Mosta techno-park, I.T. firms situated in SmartCity, small carpentry businesses positioned at the low-technology Handaq industrial estate, and so on. The objective is to encourage similar cognitive processes within like-minded business people, who can learn by emulation and imitation (Industry Strategy for Malta: 2007-2010 p. 45). Little attempt is made to see if the business has the correct strategy profile. In fact, national clustering initiatives are based on entirely different criteria, such as sectorial clustering. Taking an example; imagine two highly entrepreneurial brothers that have started up a small carpentry business and have the potential of taking this all the way to a multinational enterprise. A close look at the firm's strategic profile indicates a business moving into dynamic growth. Governmental mechanisms will, unfortunately, not see this, and will do little by way of support towards the business. Much of the potential is lost in this way, and the business will be located in a low-priority industrial zone.

As another example, take an engineering firm that has shown high innovativeness and has expanded rapidly over just a few years. Governmental support is in full swing here, providing low interest finance, free training schemes, subsidized business space at a top techno-park, and so on. The dominant coalition has, however, collapsed, with the entrepreneurial component leaving the firm, and the more conservative component eying an increasingly competitive environment with the intention of repositioning towards a few established products. Much of government's assistance here will be misdirected. Or alternatively a manufacturing firm that has adopted a *controlled focus* trajectory and is seeking assistance to enhance a key assembly line. Government support is denied as the application is marked as "devoid of any innovative component". These examples go to show that a profiling of the strategic trajectories adopted by a firm would give vital information to policy making and policy implementation bodies run by government. There is also, once again, the issue of equifinality. The five trajectories are all success stories, albeit in different ways. Even the part-time owner-manager of a firm following a *retrenchment* trajectory is succeeding in providing motivation for himself or herself, some minute component of value added activity for the nation, some level of innovativeness and creativeness, and so on. Unfortunately, Kimberly (1979 p. 446) sums it up when the author states that "*rapid growth is often equated with success. There is a value embedded deeply in our culture that places a strong positive evaluation on evidence of growth, and a negative evaluation on steady state and, particularly, on decline*".

8.3.3 Implications for Private Support Bodies

Private support bodies and business sponsors are also important stakeholders to the small firm. Banks, venture capitalists, trade associations, private educational institutions, and various other service providers will have a vested interest in the success of the small businesses. As in the case of governmental bodies, these private players will have limited resources at their disposition, and their own survival may depend on understanding the behaviours of these businesses. Small local banks could go out of business with too many loan defaults over a sustained period. Trade associations could misinterpret the behaviours of small businesses and petition for legislation that is detrimental to the businesses over the long term. Private educational institutions could provide the wrong forms of education that produce inadequate results, and so on. Once again, having a template of small business strategies at hand can be a useful tool to help private industry understand the very behaviours, and corresponding motivators, of these small businesses.

8.3.4 Implications for Small Business Owners

As posited by Curran and Blackburn (2001), small business owner-managers are usually the people with the least time to follow the outcomes of small business research. Their general absorption of the research is through its partial application or influence in developing governmental regulations and support schemes. This does not mean that small business owner-managers are not interested in acquiring knowledge, only that they will generally place their focus on what appear to be more urgent matters. It is the larger firm executives that would be expected to read into the ensuing research developments in their areas of interest. However, businesses, both large and small, should be expected to try and observe where they are trying to go, what they are trying to achieve. Mintzberg and Waters (1985 p. 272) expect a manager to purposely search for patterns in streams of organizational actions, arguing that "*pattern recognition is likely to prove a crucial ability of effective managers".* By understanding the implications of the different trajectories, more informed decisions can be made.

8.4 Limitations and Recommendations for Future Development

For each of the three main areas of research focus, detailed sequentially in Chapters 5, 6 and 7, the chapters have included discussions on the various challenges and limitations particular to the area being described. This final section shall provide an overview of the main, salient issues relating to the research project. In particular, three main issues will be discussed. Recommendations shall be put forward in a bid to provide alternatives, or solutions, to the limiting factors that are to be described. Before looking into these three issues, however, a quick reference must be made to the main criticism leveled at grounded theory research studies, and how attempts have been made to counteract this criticism. Curran and Blackburn observe that "*despite the frequent claims by later researchers (and even more commonly, by research students) that their work was inspired by grounded theory, there are few examples in small business research which clearly show, stage by stage, the approach at work and how the final theoretical result emerged from the analytical strategy*" (2001 p. 107).

In a bid to demonstrate the adequacy of the analytic strategy deployed, two main approaches have been used in the research and in the subsequent thesis writing. The first of these is demonstrated in the Methodology chapter that has aimed to provide detailed descriptions of the knowledge claim adopted, the width and depth of the research, the sampling strategy adopted, the coding strategy applied, the data management and analysis techniques utilized, the quality criteria targeted, and so on. The second approach has been in the segmentation of the research descriptions and findings into three sequential, and individually described, stages. In each of these stages further clarifications on the application of the method have been made, detailed descriptions and interpretations on the findings have been provided, and discussions on how the stage provided an important contribution to the final objective put forward. The definition of a framework of strategy variables, the application of this framework to establish a life cycle of strategic states, and the study of business trajectories as small firms competed dynamically within different states, are these three sequential research stages. The approach of staging the research has hopefully added clarity to the work, both to its application and to its interpretation, and has responded to Curran and Blackburn's criticism. The following three issues look towards limitations within the present research, and to possible avenues for further development.

8.4.1 Issue 1: Generalizability of Findings

This first issue regards the challenge of description, prediction and generalizability of the research findings. The method of enquiry adopted, that of grounded theory, allowed for an understanding on the phenomenon to emerge that was extremely rich in *description*. Quantity wise, the 67 participants provided over 292,000 words of transcribed data, and adding to this were numerous memos that linked, described and theorized on the phenomenon in question. The thesis itself is but a summary of this detail. On the concept of *prediction*, a typology-based approach has been adopted due to the benefits it provides in this regard. Chapter 6 defines a typology of life cycle states, with firms falling into any one of four states at a particular point in time. Chapter 7 builds upon this life cycle concept, and identifies five possible trajectories of strategic behaviour that small firms will inevitably follow. This “typology” of pathways is strongly advocated by Hambrick (1983) for understanding how firms change their strategic behaviour over time, and Mintzberg (2007) argues that studies of changing patterns are really the only way to understand the dynamics of business strategy. Trajectories of strategic behaviour resolve the *prediction* issue, as they dictate the conditions and consequences of strategic actions taken over time.

The main weakness of the study in question (and arguably for all qualitative studies) is not in description or prediction, but in *generalizability*. The substantive area of enquiry has been that of a small island state, signifying a restricted geographical area. Whilst many small firms around the globe are faced with some form of geographical challenges and limitations (added costs of supply, delivery, labour market issues, etc.), the difficulties faced by small island states may be somewhat particular. There will always be more challenges to access foreign markets, particular problems regarding port expenses and efficiencies, difficulties to regularly interact with suppliers and customers, and so on. This factor should not impact upon the framework of strategy variables established in Chapter 5 (see Figure 5.2), but could influence the composition and positioning of the life cycle states identified in Chapter 6 (see Figure 8.1, X-axis). Firms moving into a *functional efficiency orientation* were observed to be smaller than firms opting for a *related diversification orientation* (unless they were *retrenching* and bringing with them a previous resource base). This is understandable for firms in a small island state; growth was more easily achieved through diversification than through focusing on core products and aiming for size and economies of scale. However, in environments with lesser geographical limitations, firms could more easily grow and still retain a focus on a few core products or services. Possibly this could be a larger growth stage than that of moderate diversification, changing the patterns shown in Figure 8.1. The research in question does not conclude upon this issue, and a similar study would have to take place in a different, and less restricted, geographical setting to establish whether the life cycle states still apply without need for modification.

Still on the issue of generalizability, this time for small island states, is one of regional culture. The question that needs to be asked is whether firms in similar competitive environments, but with different national/regional cultures, would behave in essentially the same way. For example, in the present study an Anglo culture was observed, one low on uncertainty avoidance and high on individualism. This was seen to influence the cognitive behaviours of the owner-managers to the extent that true delegation of responsibilities was at a minimum, resulting in a larger dominant coalition required for the more entrepreneurial firms. Again, the study would have to be replicated in other small island states to see if these trends were common enough to be generalized across geographical settings. In other words, would all small island states have firms with generally similar cultural dispositions? If not, what enhancements to the model would be required to make it more generalizable across different competitive landscapes. As it stands the research can only be deemed to be a substantive study. This is not unexpected, and Charmaz (2006 p. 8) would argue that "*most grounded theories are substantive theories because they address delimited problems in specific substantive areas*". Conversely, an opposing argument can be placed. Possibly the cultural groupings proposed by Hofstede (2001 p. 41), when studying large IBM units around the world, are irrelevant and inapplicable to the small firm. Findings of the present study appear to correlate strongly with those of Hankinson (2000) in the United Kingdom and McMahon (2001) in Australia. The conservative-entrepreneurial continuum shown in Figure 8.2 may possibly go some way in explaining the cultural divergences of different owner-managers. Still, to respond adequately to the generalizability issue, the present study would have to be replicated in different competitive landscapes. A final issue on generalizability has been to include small businesses coming from a range of different industries, and thus different competitive settings, within the present study. Curran and Blackburn (2001 p. 17) warn that this may come at a cost, as it is "*to ignore a wide range of sector characteristics that make them very different from each other*". Glaser and Strauss (1967 p. 57) conversely argue that this is in fact advantageous, allowing for the maximization of differences by widening the scope of research.

8.4.2 Issue 2: Researching the Failed Firm

A common difficulty found by many researchers is in attempting to study failed firms. Few, if any, owner-managers will avail themselves to discuss the failure of a business, as they will associate this with their own personal failure. The five trajectories uncovered were all, to some extent, successful trajectories of small firm strategic behaviour. There were no "failed" trajectories, and no firms available, or willing, to provide the data that might allow such a trajectory to be created (possibly with the exception of Firm 16). Hambrick (1984 p. 39) actually sees this to be an advantage, as "*if the low-performing businesses do not have integrated, cohesive strategies then these businesses introduce a substantial amount of noise into the clustering process*". In other words, a clearer picture can be gained of successful strategic behaviour due to the natural omission of failed or failing firms. An argument that can be placed here is that failed strategies do not exist, only the failed implementation of a potentially successful strategy. Many possible situations could lead to this, such as a conservative owner/manager investing too heavily in unrelated business areas, or a change in coalition formation resulting in a firm – owner-manager – context misalignment. Another example of failed coalignment could be a situation where attempts to diversify are not adequately supported by the necessary build-up of excess resources (Gary 2005). The five successful strategic trajectories may not fall into Tang's and Liou's (2010) definition of sustainable competitive advantage through unique resource-management-environment alignment, but arguably do look at "sustainable competitiveness" for the small firm as it adopts different coalignment characteristics at different life cycle stages.

8.4.3 Issue 3: Parsimony and the Study of Patterns within Patterns

A final limitation that needs to be articulated regards the failure of the research to focus more specifically on a number of important criteria, this due to the objective set out to study patterns (being, in itself, a generic task with parsimony as a main objective). An example of this would be entrepreneurial learning, such as double-loop versus single-loop learning, and how this changes an owner-manager's cognitive behaviour. The research setting would have been ideal to uncover more of the dynamics, the context and the consequences, of this important phenomenon.

Another example would be studying “patterns within patterns”, such as how firms following a *dynamic growth* trajectory would align their more functional strategies to complement this aggressive strategic approach. The framework of variables (Figure 5.2) has provided a range of categories, sub-categories and properties that allow for rich studies to be carried out on business actions, be they strategic, functional or tactical. For example, the *engineering stance* sub-category includes 4 different properties, with many more sub-elements, making it possible to map out the fine detail of processes and value adding activities that take place at any level of the firm. The *resource-based stance* could then be used to observe the complex medley of resources applied by the firm, the functional unit, or a single particular operation. Two examples of this possible approach shall be given on two entirely different concepts; globalization and workplace stress. Taking the globalization concept and focusing on one strategic trajectory; that of *controlled focus* (one of the lesser growth oriented strategies where, arguably, less of a focus on globalization would be expected). Two issues immediately stand out that have been given prominence by various authors (e.g. Soriano and Dobon 2009). These are the level of understanding that an owner-manager would require of the globalization concept, of its implementation, and of its perceived benefits to the firm’s expansion and survival, as well as the resourcing that would be required to successfully implement a globalization strategy. Profiling the strategy of the small business (i.e. relating to the template of trajectories; Figure 8.1) would immediately give the observer an advantage, as it would establish the strategic mindset of the owner-manager and the particular coalignment of characteristics that make the *controlled focus* firm what it is. The *controlled focus* firm is successful, in its own right, due to the conservative and highly focused mechanisms that define its functional efficiency orientation. Treating it as a firm ready for dynamic growth would be a recipe for disaster.

However, there may be two approaches that an observer, or consultant, could provide to the *controlled focus* owner-manager. A first step would be to establish whether the owner-manager was on par, or in excess to, the relatively conservative state of the firm. For a conservative owner-manager philosophy the consultant could prescribe a low-profile approach of *indirect* globalization, as Matlay and Fletcher (2000 p. 441) describe it, where assistance would be given to direct the firm’s established goods/services towards foreign niche markets. For a more entrepreneurial, growth oriented management philosophy the consultant would start by using the trajectory template to demonstrate to the owner-manager the different strategic trajectories available, and their consequences. If willingness was shown to grow through, say, a *contained growth* trajectory, then steps could be taken to assist the owner-manager build the knowledge and resource capacities necessary to apply a more aggressive *direct* globalization strategy, in a number of complementary areas within the particular industry value chain.

Taking a second example, that of workplace stress and its negative implications on the small firm. Also, for argument purposes, let us take a small firm that has been profiled to be following a *dynamic growth* trajectory. This implies a dynamic firm with some 30 employees, with owner-managers heavily involved in value creation and in hands-on implementation, and aggressive diversification into unrelated, high-technology industries. Workplace stress is a key human resource management issue, leading to job dissatisfaction, premature burnout, increased turnover, and a lowering of performance. For the owner-manager who has understood the *dynamic growth* trajectory that the firm is following (and its implications), two actions can be taken. One would regard employee resourcing, both for recruitment and for career progression. Steps could be taken to identify employees whose aptitudes and attitudes were congruent with the dynamic nature of the firm. As "*people suffer stress when they believe they lack the resources to deal with difficult events*" (Avey, Luthans and Jensen 2009 p. 680), aligning the employee's profile with the established dynamic profile of the firm would be imperative. The second action regards existing employees, and motivating them through techniques such as positive psychological capital (Luthans et al. 2008). The technique argues that employees need to build the confidence to take on challenges, to build optimism in their capabilities of success, and to be able to react and redirect their efforts when the need demands. The coalition characteristics of the *dynamic growth* owner-manager team would, if properly directed, be well suited to assist employees to build these characteristics. The more dogmatic component of the dominant coalition could take on the task of building up the skills of the employees, whilst the more entrepreneurial component could focus on continuously enhancing employee knowledge and awareness of the dynamic challenges facing the organization. Alternatively, an H.R. consultant could assist in directing the firm in this fashion, once he/she is aware of the particular characteristics that a firm following a *dynamic growth* trajectory will have. Both the globalization and the workplace stress examples demonstrate how the research can be taken further by looking at the alignment of small business strategy with various functional strategies that the firm may want to embark on.

A concluding comment is made by reviewing the three themes that have been seen to be cardinal to the understanding of small business strategy. The first is that of the dynamic nature of small business strategy, best understood through the mapping of patterns that depict the various strategic paths, or trajectories, that small firms will follow as they change strategic states. A methodology that incorporates both structure and process is required to be able to map out these patterns. The grounded theory method of enquiry has been applied for this purpose. On small business research Curran and Blackburn (2001 p. 103) argue that the use of qualitative techniques ”*forces the researcher to think harder and, hopefully, to be more creative when generating interpretations*”, building a better understanding of the “*why”* of what is happening. The second is that of coalignment; dynamic coalignment, that is. Changing relationships were observed between the owner-manager, the firm, and the competitive landscape. Only by understanding this dynamic coalignment could sense be made of the visible trajectories of strategic behaviour. This logic is out of tune with that of earlier proponents of strategic momentum (e.g. Miller and Friesen 1980), but very much in line with recent arguments on *strategic consistency* (e.g. Lamberg et al. 2009) and on *strategic flexibility* (e.g. Zhou and Wu 2010). Strategic consistency looks at the alignment of a firm’s actions, its historical behaviour, and its competitive environment. Strategic flexibility places less importance on historic behaviour, but does emphasize the dynamic alignment of a firm’s resources, its processes and its strategies, to adapt to environmental change.

The third theme is that of organizational performance particular to the small business. The argument that has been put forward in this research is that one has to understand where the small firm is trying to get to, to be able to measure if it has actually got there. The five different trajectories each had clearly distinguishable performance outcomes in terms of subjective measures, and of objective measures such as growth and size (both financially and in employee count). Relating strategic trajectories to performance gives the academic and practitioner alike a range of goals to target, and a choice of pathways for getting to the different goals. The research has thus attempted to study common strategic pathways for the small firm as observed from visible patterns of long-range actions taken, as well as the rewards to be reaped for following a chosen pathway. The study has sought to achieve the three objectives of grounded theory research established in the methodology chapter (Section 4.1): It has aimed to build a parsimonious model (shown in *Appendix 10*) and summarized in the fifteen propositions in Figure 7.15) that allows for a theoretical representation and explanation of the phenomenon in question, and that is rigorously grounded in the data. Repeating the words of the distinguished author Henry Mintzberg; *“what better way to study strategies, and the processes by which they develop, than to uncover patterns in organizations and investigate their origins*” (Mintzberg 2007 p. 1).

8.4.4 Issue 4: Recommendations for Further Research

Two further research streams are foreseen as possible continuations to the present research project. The first relates to the concept of ‘patterns within patterns’ mentioned earlier on. It involves the application of grounded theory techniques to build upon the existing research model in order to study functional strategies, as well as the important requisite of strategic fit. This would be carried out by the present research student, populating existing categories with more dense data relating to a particular area of functional significance, such as a firm’s marketing strategy. Categories such as the *resource-based stance* and the *engineering stance* would be enhanced with additional properties/dimensions, and the *strategic actions/reactions* category would focus on both business level actions and on functional actions. This would allow for an in-depth study of how the firm’s functional strategies align with its more integrative business strategy.

A second alternative research stream would aim at the important requisite of generalizability; that is, making the model summarized in Appendix 10 more widely applicable. This would be carried out through quantitative, multivariate analytic techniques, effectively closing off the research cycle by testing out the model in different settings and refining as necessary. Two approaches could be adopted by future researchers. The first approach would be in line with the technique used by Hanks et al. (1993) to study strategic life cycle states using a cross sectional, static approach. As indicated in Chapter 6, the four life cycle states that were observed (the *SBO, FEO, RDO, UDO* states) were primarily explained through the structural variables (the *contextual* and *consequential* categories) of the Framework (see Figure 5.2). This would exclude the process-level variables (the *strategic actions and reactions* category), as well as the subtle interactions of process with structure. The focus would, instead, be placed on operationalizing the structural variables using a multi-dimensional approach and the use of multiple item scales to better capture the meaning of the various themes. Dynamic pathways of strategic behaviour would then be inferred from the static life cycle states. A more rigorous approach would follow on the lines of McMahon (2001), where repeated snap shots of longitudinal data are taken and strategic pathways subsequently inferred. In both cases the objective would be the same; confirming/refining the five pathways summarized in Appendix 10 in different research settings to gradually elevate the theory from one of mid-range to one of wide-range application. Moving the theory from a substantive one to that of a grand theory would give researchers and practitioners a much sought after generic model for small business strategic behaviour.

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Appendix 1: Overview of the Four Contributing Fields to Strategic Group Theory

Appendix 1.1: Industrial Organization Theory and its Later Developments

The focus of business policy and earlier strategic management has been on what makes a particular firm exceptional or unique, and thus what might provide the basis for a unique strategy. Industrial Organization theory (IO) offers a start towards a systematic understanding of the industry environment. IO theory is essentially a ‘contingency’ theory, whereby the environment influences organizational behaviour, which in turn influences economic performance (Rouleau and Seguin 1995). The traditional Industrial Organization paradigm of the 1950’s and 60’s (Bain 1968) held one main belief; that a firm’s performance in the marketplace depends critically on the characteristics of the industry environment in which it competed. This was depicted through the standard structure-conduct-performance (SCP) model whereby industry structure determines the conduct of firms, whose joint conduct determines the collective performance of the industry in question. Essentially firm behaviour is treated here as a ‘black box’ (Thomas and Pollock 1999). As conduct is a firm’s choice of pricing, advertising, production and quality, this dimension is akin to strategy for policy practitioners. Newman (1978) postulates that strategic groups – firms highly symmetrical in their strategies – are a stable and observable element of market structure. For example, an industry with a more complex structure of strategic groups would display more rivalrous and turbulent conduct.

However, the concept of firms acting without any real power of choice began to be queried in the early 1980’s. A main contender to this IO framework was Michael Porter (Porter 1979a, 1979b) who observed that the current SCP paradigm, seeing all firms within an industry as being homogeneous and sharing profits in equal proportion to their sales volumes, as being out of tune with a growing body of systematic empirical studies. Studies were increasingly providing the evidence for firm heterogeneity within single industries. The older IO explanations of what provided for market power within a single industry were seen to be inadequate at best. Porter notes that *“the structure within an industry consists of its configuration of strategic groups, including their mobility barriers, size and composition, strategic distance and the market interdependence relative to each other.*

The firm will have higher profits if it is located in a group with the best combination of high mobility barriers, insulation from intergroup rivalry and substitute products, bargaining power with adjacent industries, the fewest other members and suitability to the firm's execution ability" (1979b p. 219). Porter (1981) in fact notes that more recent IO work had shifted the unit of analysis from solely the industry to both the firm and the industry. Caves (1980) observes, in a similar train of thought, that IO economics had only just begun to incorporate the concept of an organization's strategic choice into the analysis of market structure, conduct and performance. Caves recommends that performance associated with particular organizational strategies should be investigated more effectively, and not solely within the confines of allocative market efficiency. Caves makes an early reference to Resource-based Theory, observing that whilst prevalent IO theory assumes that under perfect competition equally successful firms would be identical, in fact these firms might deploy quite different resource bundles to achieve similar performances. Thomas and Pollock (1999) observe that the strategic group concept effectively turns SCP theory on its head, and argue that it is the strategic behaviour of firms that influences the structure of the market, and hence the performance of the industry.

The concept of mobility barriers, an important 'strategic group' concept, was first introduced by Caves and Porter (1977) and Porter (1979, 1980, 1981). Mobility barriers are described as deterrents to a shift in strategic position of firms within an industry that give some firms an advantage over others. The larger the mobility barrier for a particular group, the more chance an organization within that strategic group has of making above-normal profit (Porter 1980 p. 134). Causes for mobility barriers are possibly economies of scale, product differentiation, proprietary knowledge, cost and quality advantages, etc. This concept is seen to also build upon Porter's identification of strengths and weaknesses for different firms within an industry. The strategic group/mobility barrier concept is seen by Porter to be a logical extension of the earlier Industrial Organization economics. Empirical studies on strategic grouping as a result of mobility barriers, and within the context of strategic management research, have been effectively implemented by authors such as Fombrun and Zajac (1987).

Appendix 1.2: Organizational Systematics School of Thought

Moving on from the later Industrial Organization theory, one finds a little explored field, but one that provided for fundamental theory on strategic grouping in organizations; Organizational Systematics (McKelvey 1975, 1978). Organizational Systematics is seen by McKelvey to be a necessary prerequisite to studies aiming to identify generalizable principles of organizational content and process. Systematics is essentially a science of diversity, aiming to classify organizations as members of homogeneous sub-populations. McKelvey looks towards biology to derive theory applicable to the science of Organizational Systematics. The author theorizes that there is a strong analogy between organizations and biological organisms; both are purposeful systems that adapt responsively to their environment and both can bring about changes to their environment. Hambrick (1984) supports this school of thought, postulating that the biological sciences have relied on taxonomies for a long time, in their ongoing search for discrete species. Thomas and Venkatraman (1988) provide further support, arguing that McKelvey's theory provided valid arguments as to why groups form and remain stable over time. The two biological theories that McKelvey relates to Organizational Systematics are: a) Empiricism and numerical taxonomy and; b) Evolution and phyletics. Theory on empiricism and numerical taxonomy postulates that there are naturally occurring groupings and that adequate analysis, through techniques such as cluster and discriminant analysis, will reveal these groupings. Theory on evolution and phyletics traces out the development of species and attempts to understand how organisms adapt to environments and descended into natural, present-day groupings. McKelvey theorizes that both theories, in conjunction, are applicable to the field of Organizational Systematics.

Appendix 1.3: The Strategic Choice – Environmental Determinism School of Thought

A third school of thought that adds clarification to the argument being formulated, and provides for a healthy integration of a number of key issues highlighted in the previous three schools of thought is *Strategic Choice – Environmental Determinism* theory. Environmental determinism is essentially an offshoot of the earlier contingency theories that reasoned that an organization's performance is contingent of environmental constraints and conditions. The organization itself is void of strategic choice, and will perform in accordance with environmental conditions or else be selected out. Environmental determinism is essentially fuelled by earlier Industrial Organization theory, contingency theory and population ecology. A limited number of authors (Astley and Van de Ven 1983; Bourgeois 1984; Chandler 1962; Child 1972; Hrebiniak and Joyce 1985; Snow and Hrebiniak 1980) provide for enhancement to the theory through integration of strategic choice and environmental determinism. Chandler's (1962) seminal text makes a first and unique (at the time) reference to the concepts of structure following strategy, of strategic growth resulting from an awareness of opportunities and needs, and of entrepreneurial management creating unique resource configurations to proactively act upon this awareness and create unique structural configurations. Child (1972 p. 15) is more direct in his text, arguing that "*Chandler's analysis, and that presented in this paper, leads to the conclusion that strategic choice is the critical variable in a theory of organizations*". Child argues that the strategic choice of the dominant coalition extends to the environmental context within which the organization is operating, to expectations in the firm's performance standards, and to the very design of the organizational structure. The strategy – structure debate is taken one step further in the seminal texts of Burgelman (1983a, 1983b). The author takes on two perspectives; induced and autonomous strategic behaviour. Induced strategic behaviour (more relevant to the large firm) occurs when a formalized strategic direction will result in substantial resource deployments that then condition further strategic direction. In this case strategy will subsequently follow structure. However in the case of smaller firms, autonomous entrepreneurial behaviour will influence strategy formation as there will be little or no resource stocks to moderate this 'structure-follows-strategy' scenario. This entrepreneurial style of behaviour is more relevant to the small firm (Dess, Lumpkin and McGee 1999).

Both Hrebiniak and Joyce *and* Astley and Van de Ven conclude that the strategic choice – environmental determinism dichotomy is essentially a theory of adaptation, whereby an organization adapts, through choice, to the external environment. The logic behind the integrated theory is, in essence, open system theory; organizations are in equilibrium with their environment through a constant exchange of materials, data and energy. The *strategic choice – environmental determinism* school adds a healthy clarification to the framework supporting strategic groups, providing a renewed focus to the importance of the environment and the core competencies that allow an organization to operate effectively within that environment. An important concept relating to the theory is the issue of equifinality, in that similar results may be achieved with different initial conditions and in different ways. A further strength of the theory is its inclusion of behavioural philosophy as the rationale behind the theory. The concept of strategic choice is supported by later developments in Industrial Organization Economics (Porter 1981) and the Resource-based Theory of the firm (Penrose 1959; Barney 1986; Peteraf 1993). Essentially the firm here is no longer a black box and can build unique bundles of resources in order to create and sustain competitive advantage. An interesting integration of the choice – determinism literature with strategic group theory comes from Bourgeois (1984 p. 589), who reasons that "*the strategic decisions made by managers cannot be assumed to be the product of deterministic forces in their environment*" but also that "*it was found that strategies were not homogeneous but tended to occur in clusters or 'strategic groups' of companies*".

Appendix 1.4: Resource-based Theory

The fourth theory that provides support and understanding to the concept of strategic groups is that of the Resource-based Theory of the firm. Starting off with the early writings of Penrose (1959), Richardson (1972), Porter (1979, 1980), Caves (1980), Wernerfelt (1984), Teece (1984) and Cool and Schendel (1987) amongst many others, the early economic theory defined concepts such as a unique resource base, resource position barriers due to uncertain imitability and causal ambiguity, and resource bundles formed by combinations of physical and human resources. The theory was enhanced with the writings of Barney (1986, 1991), Montgomery and Wernerfelt (1988, 1991), Dierickx and Cool (1989) and Peteraf (1993) to include later concepts such as strategic factor markets, asset stock accumulation, resources as physical, human and organizational capital, and resources as valuable, rare, inimitable and unsubstitutable. Still later literature divides Resource-based Theory into three complementary views; the modern resource-based view (Armstrong 1999; Barney 2001; Mahoney 2001; Matthews 2002), the competence and dynamic capabilities view (Hodgson 1998; Montresor 2004; Teece 1984; Teece, Pisano and Shuen 2001), and the knowledge-based view (Conner and Prahalad 1996; Foss 1997; Pitelis and Pseiridis 1999; Peteraf and Barney 2003). The various theoretical thrusts all hold one issue in common, that an organization's strategic choices should flow mainly from an analysis of its unique skills and capabilities (these resulting from its unique resource bundles) rather than from solely a reaction to the competitive environment at play.

Following the initial writings of Penrose, Porter (1979) may be deemed to be one of the earlier authors who related firm resources to the field of organizational strategy. Without developing the concept of resource heterogeneity, Porter essentially formulated a theory of corporate strategy whereby firm resources would create conditions of strengths and weaknesses within the organization, as well as open it up for opportunities and threats within the industry in which it operates. The organization will thus be geared to operate successfully within the industry, notwithstanding the forces of competition, putting the organization in a position of competitive advantage. In essence, Porter's innovative (at the time) theories of SWOT analysis, five forces of competition and barriers of entry evolve around the resources that an organization has at its disposal. Whilst Porter did elaborate on the product of resource bundles such as economies of scale, product differentiation, access to distribution channels and so on, very little was said on the content or creation of the resources themselves.

The earlier concept of core and distinctive competencies was later developed into that of 'dynamic capabilities' of a firm by Teece, Pisano and Shuen (2001). This development, or evolvement, of the resource-based view focuses more intently on a firm's strategy for exploiting internally developed firm-specific assets. In fact the focus of the authors is on asset structures for which no ready market exists (i.e. these assets must be built), since these are seen to be the only real source of sustainable competitive advantage. The empirical studies of Snow and Hrebiniak (1980) provide an important link between strategic groups and distinctive competencies, researched over a range of industries. McGee, Thomas and Pruett (1995) place an emphasis on the dynamic and individualistic approach by which organizations invest in resources, build an asset base, strengthen their competencies, and create mobility barriers with organizations that have different resource bundles. Indeed, the authors see the key to understanding industry evolution as being through the mechanisms through which organizations change their asset structures. The authors also provided for the elusive link between Resource-based Theory and strategic groups (1995 p. 257): *"The strategic group concept directs attention to those groups of firms within an industry which may actively compete with each other by virtue of their investment in apparently similar distinctive assets, strategic resources and core competences".* Thomas and Pollock (1999 p. 129) provide for a further clarification of the contribution of Resource-based Theory towards strategic group membership: *"At its most basic level, strategic-groups theory argues that within an industry firms with similar asset configurations will pursue similar competitive strategies with similar performance results. Firms may therefore be clustered together into groups based upon their similarities in asset configuration."* An integration of Resource-based Theory and strategic groups can also be seen in Borch, Huse and Senneseth's (1999) taxonomy of small firms, clustered into Technological, Managerial, Impoverished and Traditional firms, based upon different resource configurations.

Appendix 2: Examples of Business Typologies

Appendix 2.1: Typologies Based on Stances

A common argument within the strategy literature is whether to study *content*, or *process*, or both. To avoid the many issues of contention that cloud this debate, a common understanding shall be extracted from the literature on the meanings of both terms, and of their application. In fact, an integration of two research streams shall be attempted; the general research on strategy typologies and the more direct literature on grounded theory. *Process* research looks at the activities leading to and supporting strategic decisions, the examining of "how" strategy is formed (Ketchen, Thomas and McDaniel 1996). In similar vein, Strauss and Corbin (1998) see *process* as the implementation of actions/interactions over time by persons or organizations in response to certain problems and issues. Strauss and Corbin agree that by studying *process* one will understand "how" organizations act/interact (although not so much the "why"). Ketchen, Thomas and McDaniel see *content* research to focus on the subject of a strategic decision; the "what" has been decided. Boyne and Walker (2004) similarly posit that *content* is the outcome of *process,* describing the organization's position and how it interacts with its environment. Jemison (1981 p. 602) distinguishes between "*what should be done (the content of a firm's strategy) and how it is accomplished (the processes of strategy formulation and implementation)".* Over here Strauss and Corbin deviate to a small extent, applying the concept of *structure* instead of *content*. Strauss and Corbin (1998 p. 127) argue that "*structure or conditions set the stage, that is, create the circumstances in which problems, issues, happenings, or events pertaining to a phenomenon are situated or arise*". *Structure* incorporates both conditions and consequences to a phenomenon, meaning not only "what" has been decided, but also "what" were the conditions or reasons for the decision. Arguably Strauss and Corbin's concept of *structure* is more complete as it looks at a position, or stance, being taken but also looks at the particular situation within which it was taken. Thus, as a first step, a review of a number of select *content* (or what Strauss and Corbin call '*structure'*) based typologies shall be carried out to see what learning these provide to the field of business strategy, and particularly to that of the small business. Three 'stance-based' typologies shall be looked at, each taking on a unique (and vastly different) perspective in an attempt to understand and explain the strategy phenomenon. These are as follows:

Chandler’s Type I, Type II, Type III Organizational Classification

The contribution of Chandler’s (1962) seminal text, ‘Strategy and Structure: Chapters in the History of the American Industrial Enterprise’ is often contributed to the understanding of organizational strategy outside the confines of earlier Industrial Organization Economics (where a rigid SCP paradigm dictated that organizations acted mechanistically according to the industry). What is less well known is that Chandler’s motives were far away from that of researching strategy, in fact his main objective was to carry out a historical study on how large organizations adapted their structures over time. The end result was a groundbreaking (at the time) correlation between strategy, structure and management-led processes. Chandler’s in-depth studies on early American organization strategies were subsequently translated into a parsimonious typology through the works of Fouraker and Stopford (1968). Main behavioural patterns were seen to result in structures that were a single division, multidivisional, diversified, and vertically integrated. Fouraker and Stopford proceeded to group the organizations researched by Chandler into a 3-category classification; the *Type I*, *Type II* and *Type III* organization. Fouraker and Stopford define the *Type I* organization as the earliest design, and one that in fact forms the backbone of modern organizational structures. Within this organizational setup the Chief Executive Officer (CEO) is directly and solely in control of a functionally structured architecture, mainly consisting of only one product or product line. Usually the CEO will also be the owner of the organization and would demand absolute top-down control. This type of organization reflects the early industrial revolution covering the late nineteenth and early twentieth century, where manufacturing organizations evolved from the skills and resources available from the earlier agricultural industry. The design is essentially that of a single autocratic ‘problem-solver’ directing (and dictating) a structure and technological setup of limited width and complexity, and with mainly technical skills. Of interest to note is that this form of organizational design will often be seen in small firms today, particularly those carrying out a mechanistic or routinised core activity.

The *Type II* Organization is an extension of the *Type I* organization. The structure is still functional in nature, usually limited to a few product lines and a core technological process. The organization will be vertically integrated, both into sources of supply and into sales. Management will be well-trained in relevant areas of technology, and will direct their attention towards resource efficiency and functional processes. However, management training and expertise will be narrow in focus, thus limiting the width of expansion of the organization. True multidisciplinary management will not be present in this type of organization, making it the most efficient in the more simple products and services. As in the *Type I* firm, small businesses that retrench or focus on a limited range of product lines (or services) will also operate in a similar *Type II* fashion. The third type, the *Type III* Organization, is used for diversified organizations and for organizations decentralized into business units. The evolvement of *Type III* organizations came as a result of post-world war II problems to manage organizations that were increasing in size, resource strength and scope, and could no longer be managed in *Type II* fashion. Multiple products, each with their own product life cycle and core technology, would complement each other and would give the organization greater flexibility and competitiveness. The existence of different divisions within the organization also has an impact upon management competencies, now management could be trained within the various divisions and also multi-skilled through cross-divisional training. This is largely where the applicability of the typology towards the small business reaches an end. Understanding the basis of the typology (that of connecting structure to strategy) exposes the reason; small firms have less of a formal strategy-structure relationship as their more limited resource base allows for added flexibility in configuring physical resource layouts. In other words the structure of a small firm provides less information towards the firm's strategic intent than does that of a large firm. The typology, that has its usefulness to understand large firms, is thus of restricted use to small businesses that often employ less than 10 full-time employees.

Mintzberg's (2007) Classification of the Machine Organization, the Entrepreneurial Organization, the Professional Organization and the Adhocracy Organization

Mintzberg provides an overview of eleven in-depth studies of the strategies pursued by various different firms to put forward a general theory of strategy formulation. Mintzberg (2007 p. 340) concludes that "*the organizations studied, and the strategy processes they used, seemed to fall roughly into four distinct groupings, or configurations*". The *Machine Organization* produces mass, standardized products/services with predominantly unskilled labour, is usually large, and functions best in stable environmental conditions. The *Entrepreneurial Organization* is controlled by a small dominant coalition, is usually found in small or start-up firms, and functions in a competitive, dynamic environment. The *Professional Organization* functions through professional, autonomous and highly skilled employees, and provides standardized products/services in stable environmental settings.

The *Adhocracy Organization* operates in a highly dynamic environment, using teams of experts working on projects to create innovative solutions. Of interest to note is that this recent text by Mintzberg also prescribes a normative approach for researching strategy formation, an approach that is similar to the stages of implementation of this present research. The first stage is access to firms' strategy-related data; conducting interviews, gathering secondary data, listing strategic areas, environmental considerations, and so on. The second stage is the determination of strategy patterns by mapping out patterns in action streams for the firms in question and over the entire period of study. The third stage is an analysis of each major period, understanding the underlying forces, relationships, outcomes of each main period. The final, fourth stage is theory building, using diagrams and patterns to map out various theoretical and symbolic underpinnings. Mintzberg argues that strategy formation for a firm is a dynamic phenomenon, and advises that the researcher should ultimately shift from the configurations described above to the movements between configurations; "*by considering the findings of these studies in a different way: as stages in the life cycles of organizations, as they appear, develop, falter, and are renewed*" (2007 p. 361).

A Taxonomic Study of Growth Stage Considerations (Hanks et al. 1993)

Whilst the previous two typologies were initially created with the larger, more bureaucratic organization in mind, Hanks et al. (1993) seek to develop a strategy-based typology more relevant to the smaller firm. The study in question looks at firms with a mean size of 125 employees, and classified as high-technology organizations. The authors attempt here to integrate *content* with *process* by inferring *process* from a cross-sectional model that was developed. The focus of the study was based on business life cycle stages, with each life cycle stage consisting of a unique configuration of variables describing the firms' strategic orientation at that stage. Hanks et al. (1993 p. 25) reason that by understanding the different life cycle stages one can predict growth patterns and "*provide a road map, identifying critical organizational transitions as well as pitfalls the organization should seek to avoid as it grows in size and complexity*". In fact, as argued by Hambrick (1984 p. 32); "*businesses differ by life cycle stage in what strategies they can and should pursue".* The study proceeded by first identifying key clustering variables from the literature, and then applying cluster analysis to differentiate the firms into separate groups. The resulting taxonomy provided four main clusters that, when mapped onto the axis of dynamism (Y-axis) and complexity (X-axis), provided a typical birth-growth-maturity-decline life cycle. Each cluster provided insights into the characteristics of the firms, such as age, functional basis, revenues, growth rate, specialization, organizational design, and so on. Although the four clusters provide clear strategic stances, or orientations, for the different firms and from these a life cycle trend can be (and was) inferred, the authors do admit that "*the cross-sectional nature of this study limits our ability to reach definitive conclusions as to the sequencing of stages*" (Hanks et al. 1993 p. 18). Miller and Friesen (1984 p. 1161) argue that this is an issue of concern, as the patterns inferred "*are not based upon any strong empirical evidence gathered from longitudinal studies. Typically, researchers have identified static characteristics of different organizations in various stages… rather than tracing their evolutionary sequences*". Once again the issue of "how" versus "what" arises, highlighting the limitations that static pictures of small business strategy bring with them.

Appendix 2.2: Typologies Based on Actions

One typology shall be reviewed here; that of Porter's generic competitive strategies. Porter's (1980) seminal text, aptly named 'Competitive Strategy' is more widely known for its introduction of the five forces of competition (a re-definition of the industry value chain), a typology of generic strategies, the SWOT analysis, and the concept of strategic groups and mobility barriers as a means of industry competitiveness. Less known are the underlying motivators for the text and for Porter's divergence from traditional industrial organization (IO) economic theory. Porter, amongst others, had become increasingly dissatisfied with earlier IO theory that prescribed a unidirectional Industry Structure-Conduct-Performance (SCP) relationship. This school worked on the premise that industry structure conditioned firm conduct (strategy) to result in a particular industry performance. One could practically remove the conduct parameter and study the effect of industry structure directly on performance. Porter (1980, 1981) signaled a new way of economic thinking by introducing firm competitiveness (via strategic groups, with firms clustered according to their strategies) and the way this would conversely affect the industry structure. Resource-based Theory now had more applicability in that firms with similar asset configurations could be seen to be competing within groups of similar resource bundles (Thomas and Pollock 1999), moving the question away from "what do firms do?" to "how do they do what they do in order to build/sustain competitive advantage?" It is, in fact, this question of "how" that Porter attempts to answer with his somewhat simplistic typology of generic strategies, that illustrates what actions a firm can take to capitalize upon resource strengths.

Whilst Porter (1980 p. 34) posits that "*the best strategy for a given firm is ultimately a unique construction reflecting its particular circumstances*", the author simplifies the competitive arena by defining three generic strategies of *Overall Cost Leadership*, *Differentiation* and *Focus*. *Overall Cost Leadership* is a strategy by which organizations utilize a variety of actions to drive down costs whilst maintaining reasonable quality. Actions adopted are economies of scale, the experience curve, favourable access to raw materials and aggressive cost control, commonly followed by aggressive pricing. The ultimate aim is to achieve a high market share and to utilize above-average returns to reinvest in the organization. Porter concedes that the initial price to pay for cost leadership is often a high initial capital investment, possibly with start-up losses. Porter's second generic strategy is that of *Differentiation*, this implying a product or service that boasts unique attributes in some fashion or another. The most common of attributes are in the product design, brand image, technological features, product quality, customer service, dealer networks, or indeed several combined attributes. A Differentiation-oriented organization will not ignore costs, but these will not be the organization's main priority. Similarly to *Cost Leadership*, *Differentiation* provides the organization with a weapon to defend against the forces of competition within the industry concerned. Due to the extra costs that are inherent to a differentiation strategy, the organization will often forfeit a high market share, although above-average returns can still be made. Higher costs are usually a result of actions such as quality incentives, research and design investments, and enhanced customer support.

Porter's third generic strategy is that of *Focus*, a strategy that aims at serving a particular (and often niche) target market very well. One or a combination of three approaches can be adopted; focus on a particular buyer group, focus on a particular segment of a product line, and focus on a particular geographical market. The specific needs of the particular target are met by either low cost or by differentiation, or by a combination of both. The strategy is also defendable against the forces of industry, as a *Focus*-oriented organization shall be particular in its choice of markets and products. A fourth generic strategy, or more precisely a lack of strategy, was defined by Porter as '*Stuck in the Middle'*. This position denotes an organization that has neither *Low Cost*, nor *Differentiation*, nor *Focus* as a strategic approach. The organization may jump from strategy to strategy, possibly as a result of lack of vision from top executives or a weak corporate culture. Porter utilized the concept of strategic group mapping to typify his generic strategies.

Although the typology above is based on strategic actions, one can infer the state (or orientation) an organization will adopt if the actions are carried out in a systematic manner. The actions taken will capitalize on resource configurations and will contribute towards additional resource inflows to create a privileged asset position for the firm in question. Various empirical studies (e.g. Miller and Friesen 1986) have built taxonomies to support Porter's typology, that can arguably be applied to both large and small firms.

Appendix 2.3: Combination and Integration Typologies

The stance-based and action-based typologies look at business strategy from a somewhat different perspective, each with their own strengths and limitations. Typologies that can successfully integrate both perspectives have an obvious advantage, although this integration is not common and does come with its own weaknesses. In fact, "*the effective integration of findings from process and content research is inhibited by a variety of method-related factors*" (Jemison 1981 p. 603), as shall be seen. Possibly the most common of all strategy typologies is in fact an integrated one, and is that of Miles and Snow (Miles and Snow 1978; Miles et al. 1978; Snow and Hrebiniak 1980). Miles and Snow's typology is a grouping of organizational strategies into a parsimonious set of four categories, based upon the conditions found, or created, within a business environment. The authors adopt a two-tier conceptual framework (following Figure A2.1) to explain the concept of organizational adaptation. The first tier is the 'adaptive cycle', describing three types of strategic decision making actions that an organization would repeatedly go through to align itself with the environment. These three stages are the entrepreneurial problem solving (a decision on which products/markets to choose), the engineering problem solving (the technological process of turning inputs into outputs), and the administrative problem solving (the structures, processes and procedures deployed). The second tier represented alternative ways of moving through this adaptive cycle, conceptualized through an organizational typology portraying four possible categories of organizational behaviour. These four categories, or strategic groups, are *Defenders*, *Prospectors*, *Analyzers* and *Reactors*. Each category describes a particular pattern of behaviour (that is, a strategy stance) that an organization may adopt in accordance to how the environment is perceived. *Defenders* are seen to be organizations that react to a stable environment, that build a limited market of established products, that utilize a mechanistic organizational structure, and that utilize cost advantage to defend aggressively what market share they already have. *Prospectors* are innovators who strive to find new products and market opportunities, that create an organic organizational structure, that are dynamic in nature, and that strive to create change as a tool to alter the environmental balance.

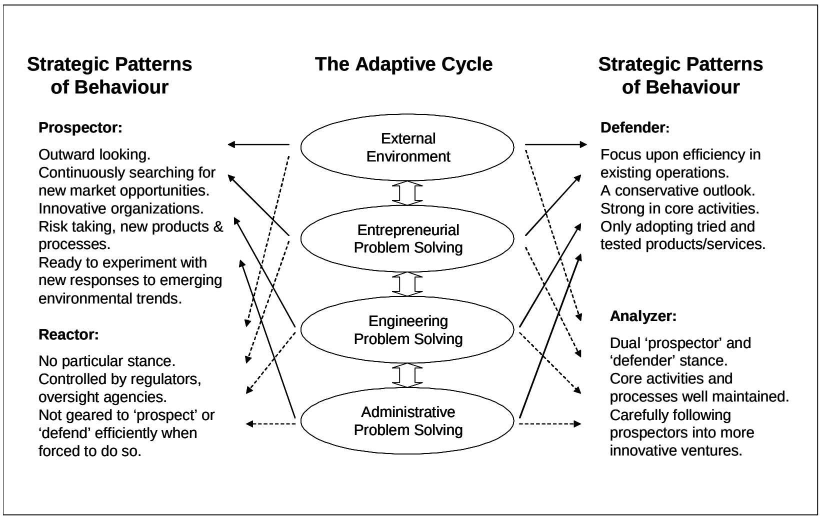


Figure A2.1: Miles and Snow's (1978) Strategic Typology

Analyzers attempt to achieve an ideal balance between the *Prospector* and *Defender* approaches. They would attempt, primarily by imitation, to exploit new product/market opportunities that appear most viable (thus copying *Prospectors*), whilst at the same time maintaining a core base of existing products and customers (thus imitating *Defenders*). Whilst all three typologies can be proactive and successful with respect to their environment, the *Reactor* organization is inconsistent and unstable, responding inadequately to environmental change and uncertainty, being out of synchronization with market and environmental conditions.

The Miles and Snow (1978) typology is commonly applied in empirical research on small, medium and large businesses alike, as shown in Table A2.1 for some of the more recent studies. The qualitative research carried out by the authors was directed towards medium sized organizations in a number of industries, and is easily applicable to smaller or larger firms. The typology integrates actions (adaptive cycle) and stances (the four orientations) to explain how the businesses go about building and sustaining competitive advantage. There is one weakness to the typology, albeit one of significance; the model assumes strategic momentum. Whilst the authors put forward a "*dynamic model of the adaptive process*" (Miles and Snow 1978 p. 9), the underlying assumption is that the adaptive actions being taken are persistent (and consistent) over time. So much so that "*adaptive decisions made today tend to harden and become aspects of tomorrow's structure*" (Miles and Snow 1978

p. 28). The smaller the firm, however, the less this assumption holds. Thus, unfortunately, the potential that the adaptive cycle has to map out the dynamics of small firm strategic behaviour is largely lost.

Author and Date	**Research Aim**	**Industry**	**Research Design**	**Strength of Relationship**	**Performance of Strategic Types** P=Prospector D=Defender A=Analyzer R=Reactor
O'Regan and Ghobadian (2006)	Research into strategy orientation and performance of SME's	SME's	Cross Sectional/Self-Typing/Single Informants/Multiple items	Significantly strong relationship	P>D>A
Aragón-Sánchez and Sánchez-Marín (2005)	Research into strategy orientation of SME's	SME's	Cross Sectional/Self-Typing/Single Informants/Multiple items	Significantly strong relationship	P>A>D
Parnell and Hershey (2005)	Research into a combination strategy	Multiple Industries	Cross Sectional/Self-Typing/Single Informants/Multiple Items	Significant, but moderate relationship	P>A>R
Gimenez (2000)	Research into small firm strategy	SME's	Cross Sectional/Self-Typing/Single Informants/Multiple items	Significantly strong relationship	P>A>D>R
Woodside, Sullivan and Trappey (1999)	Relating strategic types to marketing competencies to organizational performance	Multiple Industries	Cross Sectional/Self-Typing/Single Informants/Multiple Items	Significant, but moderate relationship	P>A>D>>R
Thomas and Ramaswamy (1996)	Testing of the validity of Miles & Snow typology	Multiple Industries	Longitudinal/Secondary Data	Significantly strong relationship	P=D>>R

Table A2.1: Taxonomic Studies based upon the Miles and Snow (1978) Typology

Ketchen and Shook (1996 p. 442) add a further criticism to quantitative studies, such as those of Table A2.1 that "confirm" the Miles and Snow classification, by arguing that "*cluster analysis has the potential not only to offer inaccurate descriptions of the groupings in a sample but also to impose groupings where none exist*". In other words if you look for prospectors and defenders, all you will see are prospectors and defenders. McKelvey (1975 p. 514) warns against this pre-classification bias, advising that in building strategy taxonomies researchers must avoid, as much as possible, the use of previous classifications of attributes. Today (in 2010) cluster analysis, based upon pre-classified attributes, is still the predominant technique being utilized by researchers.

Other authors have sought to create what is known as a combination typology in an attempt to integrate the most salient components of the two approaches. In fact, "*the combination strategy is particularly useful in that it affords the researcher the possibility of identifying* *strategies-in-practice that may demonstrate features of either school*…" (Parnell and Hershey 2005 p. 21). One such combination typology that attempts to integrate a stance-based with an action-based typology is that of Boyne and Walker (2004) who posit that an organization's strategy is essentially a mix of both stance *and* actions. The authors integrated Miles and Snow (1978) and Porter's (1980) works into a single action – stance typology shown in Figure A2.2 below. The authors subsequently go on to build a taxonomy based upon this model, and to empirically test it on 119 UK local authorities (Andrews, Boyne and Walker 2006). The rationale behind Boyne and Walker's typology is that an organization may have a mixture and combination of the different strategic options that make up the matrix boxes, and that no option is mutually exclusive. Thus, for example, an organization may be formed of a combination of 40% of A1, 25% of A4, 20% of A13 and 15% of A15.

		Strategic Action (adapted from Porter; 1980)				
		Change Markets	**Change Services**	**Seeking Revenues**	**External Organization**	**Internal Organization**
Strategic Stance (adapted from Miles & Snow; 1978)	**Prospector**	A1	A2	A3	A4	A5
	Defender	A6	A7	A8	A9	A10
	Reactor	A11	A12	A13	A14	A15

Figure A2.2: Boyne and Walker's (2004) Combination Typology

The main difficulty with combination typologies, such as the one above, is that they somewhat force the integration of actions with stances without allowing for a true understanding of how these dimensions interact and interplay as the organization evolves in its patterns of strategic behaviour. They are an application by quantitative mindsets to build a cross-sectional picture of two concepts, one of which (process) is far from static in nature.

Appendix 2.4: The Trajectory-based Typology

The trajectory-based, or longitudinal, typology is arguably the furthest one can go to map out both stances and actions over time to understand the dynamics of small firm strategic behaviour. Zajac and Shortell (1989) have demonstrated empirically how organizations, even large ones, tend to change their strategic direction over time. Hambrick (1984 p. 33) argues that "*since strategy is by essence a dynamic phenomenon, it would seem fruitful, even essential, for researchers to emphasize the classification of strategic pathways*". One of the very few longitudinal studies that map out a range of strategic pathways that firms (albeit large organizations) progress through is that of Miller and Friesen (1984). The authors observed no less than 125 transitional paths that the firms adopted as they oscillated between five different strategic states of birth, growth, maturity, revival and decline. Miller and Friesen conclude that there is far from a linear path between the five states. A more recent taxonomic study, this time on small manufacturing organizations, is that of McMahon (2001).

Although the McMahon study follows the general trend of using cross-sectional cluster analysis, it does utilize a longitudinal database to analyze the changing patterns of the firms being researched over a period of four years. For each of the four years a separate cluster analysis revealed up to 7 identifiable clusters of firms with different growth, size and age characteristics. A study of the pathways of the firms under review, using the clusters as markers or signposts over time, revealed a typology of three relatively stable pathways. These were a low growth pathway, a moderate growth pathway and a high growth pathway. The pathways highlighted the actions being taken by the firms to act/react to the business environment, whilst the cluster signposts provided the information on the strategic stances that the firms would adopt at different time intervals. Once again, due to the underlying cross-sectional nature of the study, the author refers to "*the acknowledged limitations of the research method used*" (McMahon 2001 p. 202). However, the stage is set, with the trajectory-based typology providing a merged and more informative static-dynamic picture of strategic behaviour.

Appendix 3: Database of Small Business Research Participants

Company Code	Business Activity	General Type	Employee Count	Age of Firm	Size of Dominant Coalition	Final Strategic State (SBO; FEO; RDO; UDO)	Strategic Trajectory	Normalized NAV *Final Year*	Normalized NAV *Preceeding Year*	Normalized NAV *5 Years Prior*
1	Electrical Systems Consultants	Services	9	5	1	FEO	Controlled Focus	1.00	1.00	0.10
7	Software Systems Integrators	Services	9	16	1	FEO	Controlled Focus	1.00	0.97	0.73
8	Architectural Firm	Services	14	33	3	FEO	Controlled Focus	NA	NA	NA
9	Quality Control Firm	Manufacture	45	3	1	FEO	Controlled Focus	NA	NA	NA
10	Perfume Retail	Retail	20	10	2	FEO	Controlled Focus	1.00	0.99	0.58
12	Car Park Services	Services	6	11	1	FEO	Controlled Focus	1.00	0.19	0.86
22	Electrical Systems Consultants	Services	10	19	2	FEO	Controlled Focus	NA	NA	NA
30	Printing Press	Services	22	16	2	FEO	Controlled Focus	1.00	0.81	0.57
36	Laboratory Services	Services	2	4	1	FEO	Controlled Focus	NA	NA	NA
42	Tax Consultants	Services	6	4	1	FEO	Controlled Focus	NA	NA	NA
45	Tool Importation and Retail	Services	9	35	1	FEO	Controlled Focus	1.00	1.66	1.60
53	Steel Door Manufacture	Manufacture	15	34	1	FEO	Controlled Focus	1.00	1.34	1.40
55	Software Development Firm	Services	6	2	1	FEO	Controlled Focus	NA	NA	NA
62	Events Management and Interpreters	Services	2	3	2	FEO	Controlled Focus	NA	NA	NA
64	Paint Manufacturer	Manufacture	5	13	3	FEO	Controlled Focus	1.00	0.86	-0.26
3	Heavy Engineering Supplier	Retail	6	50	1	RDO	Contained Growth	1.00	0.95	0.57
14	IT Equipment Provider	Retail/Services	6	16	2	RDO	Contained Growth	NA	NA	NA
18	Quality Control Firm	Manufacture/ Services	40	3	2	RDO	Contained Growth	NA	NA	NA
20	IT Equipment/System Provider	Retail/Services	17	20	2	RDO	Contained Growth	1.00	0.97	0.86
32	Architectural Firm	Services	12	14	1	RDO	Contained Growth	NA	NA	NA
39	Stone Masons	Manufacture	14	14	2	RDO	Contained Growth	1.00	0.96	0.75
40	Steel Component Manufacture	Manufacture	17	24	1	RDO	Contained Growth	1.00	1.01	0.82
48	Tool Importation and Calibration	Retail	6	15	1	RDO	Contained Growth	1.00	0.76	0.76
54	IT Equipment/System Provider	Retail/Services	5	12	1	RDO	Contained Growth	1.00	0.95	0.69
56	Seamless Flooring Services	Services	15	13	2	RDO	Contained Growth	1.00	0.68	0.10
59	Audio Visual Services	Services	48	31	1	RDO	Contained Growth	1.00	0.97	0.79
61	Manufacture of Ornamental Glass	Manufacture	39	41	1	RDO	Contained Growth	NA	NA	NA
63	Boat Refurbishment	Services/Retail	11	26	1	RDO	Contained Growth	NA	NA	NA
2	Electronics Components Manufacture	Manufacture	47	10	1	FEO	Repositioning	1.00	0.95	0.53
4	Aperture Manufacture and Installation	Services	25	60	1	FEO	Repositioning	1.00	0.96	0.75
5	Electrical and Electronics Systems	Retail	30	30	3	FEO	Repositioning	1.00	1.00	0.65
11	Household Family Goods	Retail	40	40	1	FEO	Repositioning	1.00	0.94	0.81
17	Engineering Services	Services	19	19	3	FEO	Repositioning	1.00	0.90	0.59
21	Manufacture of Wastewater Product	Manufacture	8	10	2	FEO	Repositioning	1.00	0.58	0.66
24	Stainless Steel Manufacture	Manufacture	37	16	1	FEO	Repositioning	1.00	1.03	1.07
25	Maintenance Service Provider	Services	49	4	1	FEO	Repositioning	1.00	0.46	0.06
26	Software Provider	Services	2	3	1	FEO	Repositioning	1.00	-3.09	3.38
27	IT Service Provider	Retail/Services	3	5	1	FEO	Repositioning	NA	NA	NA
28	PC Rental Services	Retail/Services	10	5	1	FEO	Repositioning	1.00	0.98	0.25
31	Cigar Manufacture	Manufacture	9	10	1	FEO	Repositioning	1.00	0.92	0.61
37	Accounting and Marketing Services	Services	2	12	1	FEO	Repositioning	1.00	0.89	0.33
46	Recording Studio	Services	1	9	1	FEO	Repositioning	NA	NA	NA
51	Accounting and Auditing Services	Services	3	7	1	FEO	Repositioning	1.00	1.18	1.18
52	Pottery Manufacture and Retail	Retail/ Manufacture	20	38	2	RDO	Repositioning	1.00	1.08	1.03
58	Ship Registration Firm	Services	15	36	2	FEO	Repositioning	1.00	1.32	0.72
60	Provision of Ship Supplies	Services	25	149	3	FEO	Repositioning	1.00	0.54	0.31
67	Instrumentation/Equipment Services	Retail/Services	8	62	2	FEO	Repositioning	1.00	0.66	0.67
6	Aquaculture	Services	25	11	3	UDO	Dynamic Growth	NA	NA	NA
13	Supermarket	Retail	49	26	3	UDO	Dynamic Growth	1.00	0.82	0.41
15	Pharmacy and Inventory Management	Retail/Services	27	10	2	UDO	Dynamic Growth	1.00	0.28	-0.03
29	Sensor Manufacture	Manufacture	49	8	2	UDO	Dynamic Growth	1.00	0.81	0.47
41	Waste Management	Services	14	17	2	UDO	Dynamic Growth	1.00	0.89	0.81
66	Yacht Paints and Equipment Supplies	Retail/Services	42	33	2	UDO	Dynamic Growth	1.00	0.96	0.86
16	IT Import and Retail	Retail	8	15	1	FEO	Retrenchment	NA	NA	NA
19	Carpenter	Manufacture/ Services	1	20	1	SBO	Retrenchment	NA	NA	NA
23	Manufacture of Saddles	Manufacture	20	20	1	SBO	Retrenchment	NA	NA	NA
33	Sensor Manufacture	Manufacture	5	40	1	SBO	Retrenchment	1.00	2.81	-7.18
34	Confectionary Foodstuffs	Retail	12	75	2	SBO	Retrenchment	1.00	0.85	0.50
35	Mushroom Grower	Manufacture	18	35	1	SBO	Retrenchment	1.00	1.07	1.06
38	Real Estate Agency	Services	7	20	2	SBO	Retrenchment	1.00	0.00	-0.62
43	Aluminium Works	Manufacture	6	35	1	SBO	Retrenchment	1.00	1.00	1.00
44	Wood Import/Retail	Retail	5	24	1	SBO	Retrenchment	1.00	0.90	0.66
47	Shoe Manufacture	Manufacture	2	18	1	SBO	Retrenchment	1.00	1.57	1.41
49	Manufacture of Plastic Sheets	Manufacture	6	15	1	SBO	Retrenchment	1.00	1.20	0.93
50	Coffee Import/Manufacture/Retail	Retail/ Manufacture	6	19	2	SBO	Retrenchment	1.00	0.97	1.02
57	Human Resource Management	Services	2	15	1	SBO	Retrenchment	NA	NA	NA
65	Candle Manufacture	Manufacture	3	24	1	SBO	Retrenchment	1.00	0.98	1.37

Appendix 4: Interview Prompt Sheet

Start off with a general overview of company, its history, growth, vision, values, competencies, specific challenges, etc.

Prompt 1) Organizational Structure: complexity, organic-mechanistic, centralized, formalized.

Prompt 2) History of Company; existence, growth, beliefs, orientation/focus.

Prompt 3) Value Added Processes:
Range of products. Diversity of products.
Routineness-standardization of processes/services
Interdependence between units of organization.

Prompt 4) Business Behaviour:
Level of Autonomy: a) self-direction in pursuit of goals, b) bottom-up autonomy
Innovativeness: New ideas, processes, products, technologies, markets.
Risk Taking: Bold actions, risky ventures.
Proactiveness: First-mover. New opportunities, markets. Aggressive moves.

Prompt 5) External Environment:
Attractiveness-hostility, growth of industry.
Environmental stability-dynamism, uncertainty. Rate of technological change.
Knowledge of industry, technologies, products, competitors.
Stage of industry life cycle. Product life cycles.
Threats of substitutes, new firms, overseas competition.

Prompt 6) Direct Environmental Influences:
Government: Excessive regulations, difficult to comply with.
Competitive: Difficulty in monitoring local/foreign competition.
Technology: High rate of development of technology, products, processes.
Finance: Difficulty in dealing with public/private money lenders.

Prompt 7) Management Style:
Professional values. Qualifications. Experience/background. Knowledge of industry.
Top-down vs. bottom-up empowerment, delegation, integration of decisions.
Structured, orderly and systematic style. Centralized vs decentralized control.
Personal disposition towards risk, uncertainty.
Strategies carefully planned out, high on analysis or on intuition.
Personal beliefs re: market share, being an industry leader, diversifying, profits.

Prompt 8) Strategic Actions, Moves:
Latest projects, moves. Large, bold decisions. Actions with long range intent.
Attempts to control networks, markets.
Attempts to build barriers, insulation from competitors.
New products/services launched over recent years.
Commitment to R&D, technological investments, modern equipment, ICT.

Prompt 9) Performance over Last 3 Years:
Sales/revenue growth. Profit growth.
Employee growth.
Asset growth.
Market value growth.
Any other performance measures deemed relevant.

Appendix 5: Interview Covering Letter

21st August 2007

Dear *Mr/Ms* __________
Company Name

I am presently reading for a Doctorate in Business Administration with the *Robert Gordon University* of Scotland, UK. The title of my research is "**Strategic Orientation and Organizational Performance: The Case of Small Firms in Malta**". The research aims to map out, and explain, how various forms of strategic behaviour of small firms relate to organizational performance.

I thank you for taking your time for a brief interview. If acceptable to you I would kindly like to record and transcribe the interview, as the research is qualitative in nature. The research shall be carried out under strict ethical standards recommended by *Robert Gordon University*. At no point in time will the published research make reference to any information that you deem confidential, and your anonymity shall be maintained. Also, no questions will be made relating to confidential details of products/services that you are competing with.

Whilst once again thanking you for your time, I would like to offer to keep you informed on the developments and results of the research.

Yours Sincerely

Alex Rizzo

Mob. No. XXXX XXXX
Email: a.rizzo@rgu.ac.uk
Robert Gordon University Student Number 0615656

Appendix 6: Category Schema

Context and Conditions

- Stake/Shareholder Influence
- Historic Start-Up Situation
- Local Environment/Malta Scenario
  - Temporal Events
  - The Customer/Client
  - Sources of Finance
  - Government Intervention/Actions
  - Local Trends/Attributes
  - Local Economy/Stability

- Global/Regional Environment
  - Technological/Environmental Trends
  - Foreign Competition
  - Global Economy/Stability
  - Foreign Investment/Markets
  - Cost: Energy & Materials

- Industry/Competition
  - Particular Attributes
  - Labour Market
  - Seasonality
  - Technological Trends/Change
  - Attractiveness/Competitors
  - The Client/Market

- Owner/Manager Characteristics
  - Owner/Manager Task
  - Knowledge of Industry
  - Work/Life Experiences
  - Qualifications/Skills
  - Philosophy/Values/Behaviour

Strategic Actions & Reactions

- Initial/Birth Stage: Behaviour/Moves
  - Changing Responsibilities
  - Planning & Scanning
  - Products
  - Strategic Moves/Position

- Growth Stage: Behaviour/Moves
  - Changing Responsibilities
  - Planning & Scanning
  - Products
  - Strategic Moves/Position

- Mature Stage: Behaviour/Moves
  - Changing Responsibilities
  - Planning & Scanning
  - Products
  - Strategic Moves/Position

Decline/Refocus Stage: Behaviour/Moves
Loop within Loop Behaviour/Moves

Consequences and Outcomes

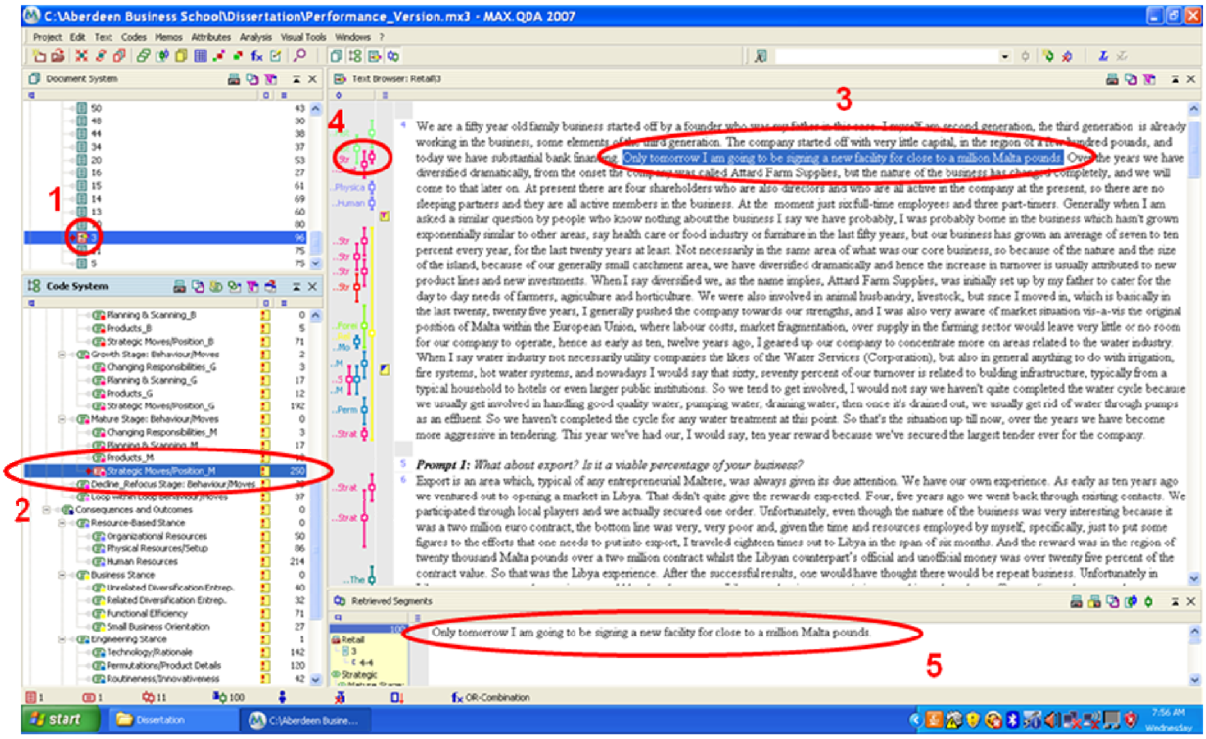
Resource-Based Stance
- Organizational Resources
- Physical Resources/Setup
- Human Resources

Business Stance
- Unrelated Diversification Orientation
- Related Diversification Orientation
- Functional Efficiency Orientation
- Small Business Orientation

Engineering Stance
- Technology/Rationale
- Permutations/Product Details
- Routineness/Innovativeness
- Mode of Operation/Description

Organizational Performance
- Competencies
- Stakeholder Satisfaction
- Brand Name/Growth
- Efficiency/Costs
- Quality Standards
- Targets Reached (Various)/KPI's
- Employee Count
- Revenues/Profits/Sales

Appendix 7: Coding Example using MAXqda2007



The above screen shot depicts the coding of one sample incident. Coding of events, themes, important characteristics, concepts, etc, takes place throughout the research. The two underlying criteria for coding are ‘fit’ and ‘relevance’ (Charmaz 2006 p. 54). The code must fit the empirical world under review and provide insights into a corresponding category. It must have relevance in that it adds interpretation to a growing understanding of the phenomenon in question. Five ellipses are highlighted in the example above, and are described briefly below:

Ellipse 1: This demonstrates which business case has been selected for analysis. In this example it is business case 3.

Ellipse 2: This demonstrates the category, or property, relating to the selected code. In this example it is the ‘Strategic Moves’ property relating to the ‘Mature Behaviour’ sub-category.

Ellipse 3: This is the actual segment of coded text, nesting within the complete transcript.

Ellipse 4: This is a coding icon, indicating the category name and colour, and code position.

Ellipse 5: This shows the same coded segment filtered out through the ‘*Text Retrieved Segments*’ function.

Appendix 8: Categories and Properties of the Framework

Appendix 8.1 The *Context and Conditions* Category

As the name implies, this first of the three categories (see Figure 5.2 for a complete overview) is content-based, and looks at the situation of the firm from a multidimensional perspective that is relevant to the context of the small firm. Whilst one may delineate context from conditions, macro environmental influences from the micro, causes from contingencies, this is not the real purpose of grounded theory research and may stifle the emergence of substantive theory. "*The important issue is not so much one of identifying and listing which conditions are causal, intervening, or contextual. Rather, what the analyst should focus on is the complex interweaving of events (conditions) leading up to a problem, an issue, or a happening to which persons are responding through some form of action/interaction, with some sort of consequences*" (Strauss and Corbin 1998 p. 132). Likewise, Corbin and Strauss (2008 p. 91) argue that most situations are really a combination of micro and macro conditions, with the distinction between the two being an artificial one. Of interest to the research at hand is the interplay between the micro and macro conditions, how they influence actions, and how they ultimately relate to the outcomes and consequences.

Figure 5.2 identifies five distinct components, or sub-categories, to the main *Context/Conditions* category. These sub-categories are seen to be distinct conceptual renderings of different phenomena, although they will inevitably covary and interact to some degree or another (dotted line visualizes this). The objectives of grounded theory are far different from quantitative techniques such as multivariate regression, where the covariance of variables may lead to multicollinearity problems. In fact, Charmaz (2006 p. 120) argues that it is this integration of categories is what will really reflect what is happening in the real world. The five sub-categories that emerged from the research are described in more detail below, and relate to both micro and macro conditions of the phenomenon under study. Placing these sub-categories in a micro–macro continuum we would see the following sequence; owner-manager characteristics, historic start-up situation, relevant industry, local environment, and global environment. More will be said on the interplay between these variables in the forthcoming Chapters 6 and 7 on small firm strategic behaviour. A description of the sub-categories follows:

Appendix 8.1.1 The Historic Start-Up Situation

This sub-category looks towards the particular start-up situation of the small firm. Owner-managers frequently referred to the start-up point (*98 references*) when trying to explain the rationale of the firm and its path towards achieving some form of competitive advantage. It has been argued that this earlier start-up situation will have ongoing ramifications towards the firm's ongoing strategic behaviour (Fulford and Rizzo 2009). For example, in a family owned business, the initial vision and values of the founder will still cause ripple effects many years on. Alternatively, the situation of a young engineer opening up a firm that takes on the work previously carried out by this engineer as an employee, will influence how the company operates for many years after. A shortage of wood wholesalers in the 1950's was the underlying reason for an importer firm to open up, this firm still heavily involved in wholesale import today even if the complete management team has changed. A technician starting off as an expert in refrigeration could now be seen running a business in cold stores. And so on.

Understanding how start up took place, and in what context, helps understand present behaviour and possibly even prescribe future behaviour. The '*Historic Start-Up Situation*' emerged with three properties: *resource advantage*; *positional advantage*; and *combined resource and positional advantage*. Companies with a *resource advantage* would have acquired a viable resource base in days where costs were low and the price of land and plant relatively cheap. Examples of these would be investments in farm land, quarries, prime office/plant locations, and even the less tangible resources such as the acquisition of glass and clay manufacturing skills. *Positional advantage* was obtained by individuals capitalizing on building an early brand name, establishing important networks and business channels, and taking up a prominent position in a seedling industry where practically no competition would yet exist. Many firms had a combined positional and resource-based advantage that could be seen to be influencing the firm many years later. An example is a perfumery that had established a brand name and central location some 150 years ago as one of the very few businesses in this industry, and to this day benefiting from this particular historic situation and prime location.

Appendix 8.1.2 The Relevant Industry

This sub-category looks towards the specific industry within which the company operates. Participants made 637 references to this component due to the significance of its effect on the ultimate strategic behaviour of the firm. Six independent properties were identified for this sub-category, enhancing its descriptive and conceptualization power. These properties are depicted in Figure 5.2 and outlined below:

Particular Attributes (100 references)

This property describes the particular characteristics that are idiosyncratic to the industry in question. Particular situations, constraints, and conditions to the industry, as well as the rationale, or value adding properties, of the industry would be exemplified by participants. Cash flow problems, tax payment/avoidance patterns, industry concentration, standardization in certain materials/processes/policies, are some of the many attributes that would be seen to be particular to an industry.

Labour Market (26 References)

The labour market was seen by respondents to be specific to, and influential on, the industry in question. Attributes included the impact of the labour market on the competitiveness of the industry, wage expectations and fluctuations in these, the availability of labour and skills-levels available, and the attitudes and behaviours of newly recruited employees. Various issues and competitive problems were outlined by respondents, such as the difficulty in finding skilled I.T. labour, the cultural clashes between temporary employees being supplied by the local employment agency, and the problems being faced with increasingly egoistic attitudes of available skilled labour.

Seasonality (9 References)

Whilst this property was not a commonly cited one, it was an important one for a number of businesses that operated in an industry influenced by seasonal fluctuations. One example was a perfumery that would make profits only at the Christmas period, and was nearly made bankrupt when a particular season saw the entrance of low cost mobile phones, with consumers purchasing these instead of the usual perfumes to be used for Christmas presents. Another example was a roof waterproofing company that would rely on pre-winter and pre-summer periods to carry out most of its activities.

Technology Trends and Changes (11 References)

The technology property relates to fluctuations in technology use or development, as opposed to details of technologies adopted, which would be exemplified in the *Consequences and Outcomes* category (to be described further on). Fluctuations in materials used, manufacturing processes, and emergence of new technologies were referred to by participants. Respondents even gave prominence to situations where technology had failed to provide additional solutions, such as in the case of a quality sorting company that lamented the unavailability of a technology to replace manual testing processes.

Industry Attractiveness and Competitors (233 References)

This important property looked towards a number of characteristics, such as; the attractiveness/unattractiveness, stability, dynamism or munificence of the particular industry, the quantity and characteristics of competitors, particular industry barriers of entry, competitors within different levels of the value chain such as suppliers, new entrants and substitute products, particular competitor behaviours and attitudes, and comparisons of the company to that of competitors.

The Client and the Market (258 References)

The client specifically, and the market generally, relate to another prominent property as identified by respondents. Attributes to this property were particularities of the client within the specific industry, market characteristics, segmentation, trends, fluctuations, details of the client such as type, style, attitudes, behaviours and needs. Other attributes were client demographics, significant clients acquired by the business and the type of relationship, and problems, issues and challenges relating to the client. Owner-managers showed a great knowledge of clients and their behaviour, particularly so because of the close links and interaction that would be built as a consequence of the small size of the firm.

Appendix 8.1.3 The Local Environment

The third sub-category that relates to the firm's context/conditions looks towards the local environment that is external to the relevant industry. This local environment describes the more immediate, regional context of the small firm, as opposed to the 'global environment' that will be described later on. Respondent focus on this sub-category was evident, with

204 references made. A breakdown of the six properties pertaining to this sub-category is as follows:

Temporal Events (23 References)

This property would include particular temporal events, problems, happenings within the local scenario, critical events such as a recent major increase in water and electricity bills, sudden political moves that would cause shock waves in many industries, and developments by key players in the local environment that could impact upon the business.

The Customer (10 References)

The *customer* property refers to general consumer trends and behaviours tying down to the culture of the region, as opposed to the specific business consumers and markets mentioned earlier. Participants referred to generic customer needs, loyalties, expectations, behaviours, changing lifestyles and attitudes, and particular attributes of the Maltese consumer that spill over onto the industry, impacting upon the business in question.

Sources of Finance (25 References)

An important property to the participants was the source of capital and operational finance, be it from governmental agencies or from banking organizations or private institutions. Availability of finance, the ease of this availability, and the lending conditions, were frequently referred to by owner-managers. The way businesses used financing often described a lot into their behaviour and management philosophy. Ease of access to finance would condition the business's propensity to invest and to grow, and in some cases, simply to survive.

Government Actions and Interventions (75 References)

In a small island state the effect of governmental actions and decisions will have strong ramifications on the small business. Owner-managers referred to this property from a number of perspectives, such as government incentives, schemes, regulations and decisions that impact upon the business, actions of government owned subsidiaries, organizations and institutions, government funded support and the mechanisms for this, regulator actions and attitudes, and government actions or lack of actions, such as in not controlling unlicensed businesses or allowing for illegal operations.

Local Trends and Attributes (47 References)

This property can be seen to relate somewhat strongly to the culture of the country. Participants referred to a wide array of characteristics such as favoritism, clickism, local patterns of behaviour and lifestyles, various peculiarities of the local environment, particular situations and conditions to be found, local environmental factors such as the weather, and local factors and changes that impact directly upon the company's short/long term operations. An example of this last factor was a local drive to commission a number of bypasses linking various villages and business hubs. This increased the value of properties adjacent to each bypass tremendously, influencing the strategic direction of any business owning the property.

Local Economy and Stability (24 References)

Small businesses would be the first to feel the effect of local economic fluctuations, although being in the euro zone somewhat buffered the effect. Owner-managers cited factors such as money in hand, the feel-good-factor, local generation of employment, and large local projects and investments that had spill-overs onto various industries. Owner-managers would often look at the economic situation from a longitudinal perspective, tying down strategic actions taken to particular changes in the economic climate of the time.

Appendix 8.1.4 The Global Environment

The global environment is a *Context/Conditions* sub-category (93 references) that looks at macro environmental factors such as global technological trends, global competition, the cost of fuel/energy, foreign investment, and the effect of the global economy on the local economy. Five properties deemed to be important by owner-managers were the following:

Technological and Environmental Trends (21 References)

Owner-managers looked here towards global technological and telecommunication developments, environmental issues, and communication/transportation trends such as the advent of low cost airlines and the increasing use of renewable energy systems in replacement of fossil fuels. Global developments had strong implications on local business operations, such as the falling cost of technology, the enhancements in processing and data transmission speeds, the uncertainties and risks perceived to relate to globalization, and the advantages/disadvantages associated with a global commodity chain now made more easily accessible.

Foreign Competition (36 References)

For this property owner-managers referred to concepts of global competitiveness such as low cost labour, threats of entry of global competitors into the Maltese scenario, threat of work being taken outside the Island, and the importation of low cost/cheap products. Observations were made regarding spiraling labour costs pushing business towards low-cost countries, the increasing quality of low-cost competitors, ease with which foreign competitors could enter the local market as an outcome of low cost transportation, and so on.

Global Economy and Stability (18 References)

Although the global economic recession of 2008-2009 took place in the middle of the research period, focus by owner-managers on the global economic climate was somewhat less than expected. References were made to the global economy, regional (European Union) economy, stability, exchange rates, changes in the global economic climate that affect the company, and situations with international clients that impacted upon the company. A number of companies actually argued that although the economic crisis was indeed being felt, the real challenge that had already filtered out the weak and strengthened the surviving was the need to survive competition from low-cost countries such as China and India.

Foreign Investments and Foreign Markets (4 References)

This property looked towards both inputs into and outputs from the local economy. Owner-managers referred here to foreign or global markets that bought from the local firm, and foreign investments into local firms.

The Cost of Energy and Materials (14 References)

This property was used to make reference to the price of natural resources and raw materials, such as the price of oil, energy, materials and minerals. The property relates to many others such as the impact of fuel costs on voyaging and transportation, referred to when mentioning the *technological and environmental trends* property.

Appendix 8.1.5 Owner-manager Characteristics

The fifth and final sub-category tying down to the *Context and Conditions* category (again, Figure 5.2 provides a complete overview) relates to the characteristics of the owner-manager of the small firm. Such importance was placed on this sub-category by participants that no less than 485 references were made to it. Notwithstanding its central role, this sub-category is not seen to be a core category as it does not define the phenomenon in question and does not take on a pivotal role for the other categories. To signify its importance however, it has been highlighted within the framework shown in Figure 5.1.

Five particular characteristics are seen to be of importance to respondents. The values, vision and particular work attitude of the owner-manager are possibly the most important property. Qualifications, skills and knowledge base are a second important factor. Previous work and social life experiences, both inside and outside the firm, are another property that determines the owner-manager's mind set. An intrinsic knowledge of the particular industry will also be a characteristic of importance. Finally, the exact details of the owner-managers task, that is what she does within the firm, can explain a lot by way of her philosophy. These psychological (e.g. values, work attitude) and observable (e.g. experience, education) characteristics determine the management philosophy of the owner-manager (Hambrick and Mason 1984). The five properties are outlined in more detail below:

Owner-manager Task (45 References)

This property refers to the parameters of exactly what the owner-manager does within the organization, as well as her personal and professional circumstances impacting upon the organization. The property looks at the range of activities and responsibilities that the owner-manager will take on at various stages of the organization's life cycle. The participants would freely describe their various roles within the business, often taking on multitasking activities spanning across the entire business, such as quality control, marketing and general administration.

Knowledge of Industry (14 References)

Most owner-managers would have an intrinsic knowledge of the business and of the industry that they would be competing in. The *knowledge of industry* property looks at a knowledge of the industry in question, of the particular business, its products and services. It refers to knowledge of the value adding processes and mechanisms within the industry. The property also includes knowledge of expected employee operations, and contributions to core business activities.

Work/Life Experiences (72 References)

Tying down with the previous property and with the historic start-up situation, the *work/life experiences* property was given prominence by respondents. This refers to work and life experiences that create a certain mindset within the owner-manager. It also looks into the history of the individual, how she got to know the job, her ongoing learning and training, and her life status, both within the owner-manager post and outside the organization.

Qualifications and Skills (31 References)

The acquired qualifications and skills of the owner-manager were a further property of importance. Difficulty was found here in getting participants to directly refer to their academic or professional qualifications (hence the lower reference count), although within the interviews a clear picture would ultimately emerge. The main reason for this was that the owner-managers that did not have particular qualifications would not want to state this, and the owner-managers that were substantially qualified would often also, out of humility, bypass attempts to map out their qualifications and skills.

Philosophy, Values and Behaviour (323 References)

As evident from the large reference count, this property had the highest amount of references of all the properties pertaining to the framework in question. The property attempts to map out the strategic mindset of the owner-manager, that is, her underlying management philosophy. Fulford and Rizzo (2009) have argued that owner-managers adopt one of a limited number of management philosophies and retain this philosophy consistently with time. Attributes to this property are the values, beliefs, vision, foresight, work attitude, competencies and behavioural patterns of the owner-managers. In a few cases it was apparent that the firm was being run by a dominant coalition as opposed to a single owner-manager, this coalition being usually two or three dominant personalities within the business, sometimes family members. In these cases the management philosophy refers to that of the coalition instead of the individual, but other to that there would be little difference as still a dominant philosophy would be evident.

In conclusion to the *Context/Conditions* category, one has to appreciate the interaction between the sub-categories and properties described above to understand the true context to the business, and the conditions within which it operates. Characteristics of the client, demographics, loyalty, buying behaviour (such as seasonality), particular needs, are all issues of importance. Attractiveness of the industry, its dynamism or munificence, will explain the ease in which the firm operates and in which new competition will appear. Technological trends particular to the industry will affect the very nature of the firm's work task. The situation within the relevant labour market will explain the availability of skilled personnel that can be employed by the firm. Finally, due to the size and resource strength of the small firm, any particular attributes or peculiarities of the particular industry may be of significance. For example, in a small contained economy, an attribute of importance would be the limited lead time after which competitors would copy a good idea. Another example would be a collective approach by customers in a particularly hostile industry where a deliberate approach to delay payments for goods/services rendered seriously affects cash flows, and thus survival, of the small firms. It is argued that every industry has its own set of particular traits that condition the way the small firm behaves.

Appendix 8.2 The *Strategic Actions and Reactions* Category

Various authors advocate including process as a means of building a more complete understanding of organizational behaviour (Hofer 1975; Corbin and Strauss 2008). This approach is uncommon, although not new in the field of research on typologies of strategic behaviour. An example is Miller and Friesen's (1978) ten archetypes of strategy making, in which content-based variables (e.g. product innovation) and process-based variables (e.g. stages of centralization) were applied. Strauss and Corbin (1998 p. 168) argue that "*examining data for how action/interaction changes over time and space and in response to contingencies forces an analyst to look for patterns*". The following Figure A8.1 attempts to illustrate how *process* intertwines with *context* and *consequences* to result in an evolving pattern of strategic behaviour. This is possibly a more realistic interpretation of the complex interactions than the multivariate relationship shown in Figure 5.2, where a simplistic argument is being made that *actions* have a direct relationship with *outcomes*, moderated by the *context* in question.

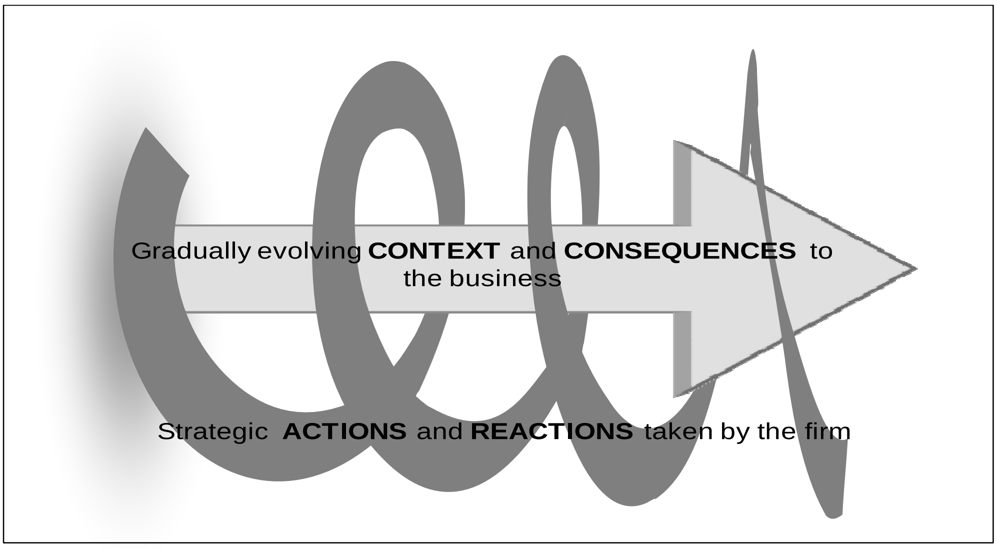


Figure A8.1: Illustration of the Interaction of Content with Process

It has already been proposed (d'Amboise and Muldowney 1988; Kroeger 1974) that the management process in small firms is dynamic, with management practices depending on the stages of growth, size, age and expertise-experiences of the owner-manager. As put by Ling, Zhao and Baron (2007 p. 689), for the small firm different managerial values matter at different times, and the best way to understand this dynamism is to take the organizational life cycle into account. This is in agreement with Hambrick's (1984 p. 32) observation that "*businesses differ by life cycle stage in what strategies they can and should pursue*".

Patterns of behaviour thus exist that take on various development stages, through the birth, growth, maturity and decline – refocus phases of the small firm (although a linear passage is not expected here). This is essentially a processual approach, where process demonstrates the ability of organizations to respond to and shape the situations in which they find themselves. Process can be examined in terms of sequence or shifts in the nature of actions and interactions (Strauss and Corbin 1998 p. 166). Empirical evidence has shown that, as a firm grows in size and age, managerial behaviour needs to change if the firm is to continue building upon its performance. As an example, Ling, Zhao and Baron (2007) demonstrate that whilst an innovative, entrepreneurial approach is shown to be best suited for the first stages of the life cycle, a collectivistic and integrative management style better suites the maturing organization. Dodge and Robbins (1992) observe empirically that the particular challenges faced by small firm management change and evolve over the life cycle. This does not necessarily mean that values of the owner-manager would change with time, possibly some values may matter more at certain stages whilst other values would become prominent at later stages. Alternatively, a maturing firm may deploy a management team that functions on a philosophy different to that of the initial owner-manager. In the logic of Nadler and Tushman (1980), a business should be looked at as a transformation process made up of a number of distinct, interdependent components. In other words, a small firm that starts off with a particular pattern of strategic fit may well evolve into a different, equally successful pattern of strategic behaviour.

The grounded theory research identified five different stages, or situations of particular behaviour, that the small business would go through. Each stage has been mapped out as a sub-category within the *Strategic Actions and Reactions* category, as depicted in Figure 5.2. The first four stages have been named the traditional birth (77 references), forming or growth (226 references), maturity (283 references), decline/refocus (70 references) stages proposed within common strategy literature on the small firm (e.g. Baldwin and Gellatly 2003; Dodge and Robbins 1992). The fifth situation falls outside the usual birth, growth, maturity, decline/refocus cycle common to the literature. It is also more relevant to the small firm that may have its very existence depending on one particular product or project. Consider a firm that is in any of the traditional four life cycle stages, but with one or more products/services going through their own particular life cycle. The length, contribution and overlap of the limited number of product life cycles will determine the success, and possibly the survival, of the small firm. This situation has been defined as a *loop within a loop* (37 references), that is a product or project life cycle within a particular stage of a company life cycle. Small firms that are highly dependent on one venture or one investment will fall into this particular category. An example would be a service-based IT firm that has based its complete but limited resource base on one particular contract, and will only be in a position to take on further projects if and when the contact is successful and revenues are collected. Each of these life cycle stages is seen to be a multi-dimensional measure of a particular processual situation, of a particular medley of actions and reactions. Four properties were identified for each behavioural stage that the firm would go through. These are outlined below (Figure 5.2 provides the complete overview):

Changing Management Responsibilities (7 References)

This property regards shifts taking place within the dominant coalition, such as actions being taken to re-establish the members of the dominant coalition or a move to employ a new senior manager. A low level of focus was placed on this property by participants, as most owner-managers would look at their status in the organization from a present tense perspective. The major evidence of changing management responsibilities was the moves and efforts being made by senior owner-managers to mould new management into a position in line with the present or future expectations of the organization.

Planning and Scanning Activities *(34 References)*

This property regards actions taken towards planning, both financial and strategic, as well as scanning activities towards the environment. Few companies had a formal planning mechanism, and practically none were in a position to demonstrate documented plans such as business plans, strategic plans or marketing plans. However, many owner-managers actively planned in what Steiner (1979) would describe to be more of a thought process then a prescribed set of processes, structures and techniques. This could be seen in the amount of industry scanning and business review exercises that owner-managers would carry out.

Actions Regarding *Products and Services (30 References)*

The property regards particular actions and moves taken regarding new or enhanced products and services, as well as steps towards product diversification. Owner-managers would describe strategic actions taken to add a new brand to the company portfolio, to attempt to elongate the life cycle of an existing brand, or to develop a new product or service in-house.

Strategic Moves and Positions Adopted (513 References)

This property looks at strategic moves and actions taken within a particular life cycle stage, and includes marketing moves, networking actions, suppliers/customers adopted, and particular projects, investments and expansions made. Strategic moves and actions that owner-managers carried out varied tremendously. Moves would be taken to penetrate international markets, to change focus to a different or changing consumer segment, or to build up a particular resource base or technical expertise. Owner managers would describe how they were going about implementing strategic activities such as setting up a major fair, or closing off a key project, or taking action to acquire a much-needed overdraft. Moves would be taken to build up a resource base, to enhance an existing base, or to replace assets that were no longer providing for competitive advantage. And so on. Often linkages would be made between this property and that of the owner-manager characteristics, as strategic moves of the firm would be very much in tune with the management philosophy of the owner-manager.

An important point to emphasize is that the *Strategic Actions/Reactions* category is far from a static, or cross-sectional, one. Reference is made to the illustration in Figure A8.1, particularly the spiral that illustrates the continuous motion of strategic actions and reactions being taken. Owner-managers would describe actions being taken, both past, present and even planned future moves. Equating this to the spiral, this means that information would be provided relating to the four properties described above, but for various different points (or stages) along the spiral. For example, an owner-manager would describe particular investment moves at start up, how actions were taken to take on a new product whilst the company was growing, how environment scanning activities were being deployed at the present state of the company's maturity, and how the business intended to diversify into the future. One way to imagine this is by taking the centre arrow of Figure A8.1 to move in a fairly consistent direction, being guided or molded into a new tangent by strategic actions/reactions (the spiral) that are deployed by the owner-manager.

Appendix 8.3 The *Consequences and Outcomes* Category

The *Consequences/Outcomes* category is the last of the three main categories (again, Figure 5.2 provides the complete overview), and shall be shown to consist of four sub-categories, with their various properties and dimensions. As argued by Fulford and Rizzo (2009) and authors such as Andrews, Boyne and Walker (2006), organizations build positions, or stances, that reflect their being, their very nature. These stances can be described as an established mindset of the business, a created setup and organizational structure, a well-developed and engrained set of value adding processes within the firm. Once again, this is not a static picture and the various stances that the firm will deploy will adapt and evolve as the firm changes with time. This stance-based approach to map out the strategic behaviour of small firms is, admittedly, an uncommon one. However, as argued by Curran and Blackburn (2001 p. 30); "*research on the small enterprise is about creative, new ways of thinking about the small enterprise that will enhance our understanding of how it functions*". Boyne and Walker (2004 p. 232) describe a firm's strategic stance as "*a general approach that describes the organization's position and how it interacts with its environment*". Three stances have been identified through the research, looking at the organizations' personification from three different, although inter-related, angles. These are the *Engineering Stance*, the *Resource-Based Stance*, and the *Business Stance*. Together with these three strategic stances, organizational performance shall be shown to form the fourth sub-category depicting the consequences and outcomes of the strategic behaviour of the small firm. The four sub-categories, together with their properties and dimensions, are described in more detail in the following sections.

Appendix 8.3.1 Organizational Performance

The first sub-category to be described is that of the performance of the small firm (84 references). It has been reasoned that *"if strategic groups are to be truly useful for theory construction in strategic management, then there should be a relationship between strategic group membership and performance criteria"* (Thomas & Venkatraman 1988 p. 541)**.** Various authors (e.g. Fahey and Christensen 1986; Wiklund 1999; Wiklund and Shepherd 2005) have contended that performance is a multidimensional construct, and must be treated as such. Also, the issue of causality between strategic actions and performance must not be overlooked. As noted by Covin and Slevin (1989, 1991), high performance may be a result of specific strategic behaviour, but may likewise be the cause for adopting certain behaviour. This covariance between the categories is depicted in Figure 5.1. One problem tying down to the low reference count (the 84 references) is that "*small firms are notorious for their inability and unwillingness to provide desired information on their performance*", (Covin and Slevin 1989 p. 80). This is not to say that performance was not measurable for the small firms in the study, but that the detailed descriptions provided by participants gave far more insights into the firms' performance than did direct references to performance achievements. As argued by Lumpkin and Dess (1996), performance was indeed shown to be a multi-dimensional concept, and various tangible and intangible performance criteria were identified by the respondents. These are outlined in the eight properties described below:

Competencies (4 References)

This property relates to competencies and capabilities acquired by the firm. Owner-managers would identify competency achievements as a successful performance-related endeavor. Aspects such as building an effective after-sales service or a low manufacture failure rate would be deemed to be successful performance criteria.

Stakeholder Satisfaction (1 Reference)

Stakeholder satisfaction was referred to as a means of gauging successful performance. This was not a common performance measure, as often the owner and the manager of the firm were one and the same.

Brand Name/Growth (9 References)

This property relates to brand names acquired, products ‘owned’ by the firm, new products launched after internal development, and dominance in a particular field or market. Small businesses would see brand acquisition and representation to be an important strategic achievement.

Efficiency/Costs (5 References)

Owner-managers would refer to efficiency achievements and cost reductions/controls as vital productivity and performance measures.

Quality Standards Achieved (1 Reference)

This property was not directly referred to often, although in many interview discussions the owner-managers would demonstrate their focus on quality achievements as an important organizational objective.

Targets and KPI’s Achieved (13 References)

Key performance indicators and other strategic or operational targets were often mentioned by respondents. Having a steady workload throughout the year, increasing the client base, adding on a new brand, opening a further outlet, even survival itself, were deemed to be important performance-related targets.

Employee Count (2 References)

The number of employees on the payroll, and fluctuations in employee count, were referred to by owner-managers as visible signs of a performing organization.

Revenues/Profits/Sales (49 References)

This property was the most cited, and consisted of tangible measures in turnover, profits, and asset valuation. Revenue fluctuations, profit values, return on investment and balance sheet values were mainly referred to as a viable measure of a year’s performance. Secondary data obtained on the financial records of companies served to add information to this property, and provided a vital source for methods triangulation (to be described in detail in Chapter 7).

Appendix 8.3.2 The Engineering Stance

The first of three stances identified within the research is the *engineering stance* adopted by the organization, a concept that is ignored in much of the academic literature on strategic behaviour. The *engineering stance* looks at the organizational process of transforming inputs into outputs, of creating a value-adding mechanism (Fry 1982), and the various combinations and permutations by which the organization carries out its business. The *engineering stance* can thus be described as the "*work being performed by the organization and encompasses many qualities beyond how the work is structured and facilitated, including the skills and knowledge of workers, the characteristics of the objects on which work is performed, and even the cause-and-effect relation between actions and outcomes*" (Hendrick 2003 p. 500). Mintzberg (2007 p. 388) defines the construct as the "*technical system*" of the organization. The *engineering stance* thus consists of the mode of operation, technology, complexity, dimensions and level of standardization of the work task. It is thus understandable how this dimension can contribute significantly to describing the strategic behaviour of an organization. A number of studies (e.g. Miller et al. 1991; Yasai-Ardekani and Haug 1997) have looked at the relationship between the engineering stance and other organizational variables such as structure and process, generally with consistent results. For example, a mechanistic mentality of the owner-manager will result in a likewise mechanistic structure that will, in turn, support an inflexible, routine transformation process. The *engineering stance* is especially relevant to the small firm, and the input-transformation-output process will exemplify the management philosophy, and will correlate strongly with the structures and processes that are deployed. Owner-managers made 542 references to this *engineering stance* within the research, relating this sub-category to four distinct properties, as detailed below:

The Mode of Operation (238 References)

This main *engineering stance* property addresses exactly how the firm translates inputs into outputs. It looks at the key engineering/manufacturing/servicing processes within the business's internal value chain. The property addresses the mode of operation, complexity, definition, description and dimensions of the business task. It looks at how the client is involved in the work design and its implementation. It looks at the product or business unit portfolios, identifying key activities and core processes. The property also addresses cost approaches associated with the *engineering stance*. In summary, the property answers the question "*what do we do that allows us to compete successfully*?"

Whilst most small businesses will have a range of value adding activities, firms would inevitably describe a certain core activity or a related set of core activities that gave the firm its particular competitive advantage. The relationship between content and process is most evident here, with firms acting strategically to develop and sustain competitive positions in line with contextual factors and conditions being placed upon the firm.

A number of examples serve to highlight the *mode of operation* property. A local car park facility defined how the major task of the business was to efficiently squeeze as many cars as possible into a limited parking foot print by using technology to map out consumer parking trends. An architectural firm described how it had specialized on a particular blend of activities including structural design, civil engineering, quantity surveying and interior design. A marine biotechnology firm identified a highly correlated set of activities that it had specialized upon, including aquaculture, fisheries and aquarium design. An established retailer explained how his focus was on the household, specializing in textiles for interior use, home furnishings, and baby/children appliances. An electrical system retailer and service provider described how she had branched off into six complementary areas of expertise, including low voltage switchgear, automation and control systems, and lighting. There were, however, some firms that were going against the grain and diversifying into unrelated areas of expertise.

Technology/Rationale (142 References)

The *technology/rationale* property builds upon the *mode of operation* property, and relates to a number of common and integrative concepts, such as: The detail, level and complexity of technology or engineering adopted; The underlying core competencies of the firm; The main sources of competitiveness, use of particular technologies and equipment/systems; The rationale underlying the technology or engineering process or business model; The rationale underlying the way inputs are translated into outputs within the firm; And the paradigm being applied by the business to add value to its products or services. The descriptions given towards this property showed owner-managers being very skilled at creating sustainable sources of competitive advantage, even if the markets being accessed were often niche markets. Strategic behaviour was constantly being directed towards enhancing the engineering stance, in line with the context and conditions being faced by the firm.

A number of examples serve to clarify the property in question. For example, one quality sorting firm established a manually-oriented quality testing process by which employees would be pulled in for short shifts to carry out physical checks on large numbers of automobile washers and seals. The manual nature of the tests and the mechanisms deployed to ensure a quality test each time allowed the firm to achieve a very high quality standard, one that was not easily displaced by companies with higher levels of automation. One particular retailer developed an ICT infrastructure that allowed him to monitor sales, customer trends, stock fluctuations, cash flows and so on in a near real-time basis, allowing him to react speedily to the market, often buying stock in advance of competitors, and giving him the facility to pre-empt the market. A translation and interpreting service established itself as a flexible firm, subcontracting translation work through the internet to established translators, the proof reading to other parties, with the core team managing network interaction and controlling for quality as their main functions. A ship registration company maintained a 24-hour office with excellent communication channels to shipping lines, local regulators, local and foreign administrative offices, allowing it to provide a smooth and efficient service at the shortest of notices. A point-of-sale software provider established a mechanism for automatically and freely updating all his clients with software updates whenever these took place, allowing clients to have extremely low running and maintenance costs for their system. The examples are endless and demonstrate the core rationale and technology or engineering process behind the firm's value added activities.

Permutations and Product Details (120 References)

This property adds detail and description to the *engineering stance* sub-category, and complements the first two properties described above. The property looks towards the range or permutations of products and services, the different work configurations and work options, different models, styles, colours of products, product differentiation, product and service specifications, and materials used in the product/process input stages. An example of the application of this property is a quality control company that described how the same quality control procedures used for physical component checks could be applied in an entirely different industry to check documents, texts and contracts. A studio company described how the studio facilities could be used for a range of purposes such as films, television programs, documentaries, adverts, as well as equipment rentals. A ship supply service described how the firm was geared up to service small ships and yachts, providing a wide portfolio of services including storage, food supply and maintenance. A real estate agent outlined how he had some 4,000 properties on his books, catering for sale and lease for a wide number of consumer segments and particular needs.

Routineness and Innovativeness (42 References)

This final property adds further descriptive depth to the *engineering stance* by addressing the level of routineness, or standardization, of the key activities carried out by the firm. For example, one engineering firm defined how diversity was their strong point, allowing them to create unique engineering solutions for each individual design project that came their way. A wood importer and wholesaler described how he had established a range of wood products, and specialized in the importation of these. An ornamental glass blower outlined how he had built the firm's popularity on a particular colour blend that was associated with the culture and ambient of the Island, but had drastically changed the manufacturing processes and material content over the years. An aluminium assembly firm described how the business was highly innovative when designing, building and installing apertures, seeing no aperture to be the same, each with its own distinctive properties and client expectations.

In conclusion to this sub-category, the *engineering stance* is the first of three stances that aim to describe the resulting position deployed by the firm when competing within its particular environment. The stance is just that; a position taken by the firm, and enhanced, adapted and fine tuned by the strategic actions deployed by the firm over time and in accordance to external conditions. As visualized in Figure A8.1, the *engineering stance* will be expected to be fairly consistent over a specific time period, and a significant change in this stance would identify a significant change in the strategic direction of the business. Once again, the issue of reverse causality must be addressed here. Is the engineering stance an outcome of the business's strategic actions, or is it a precursor to these actions? Again it is argued that reverse causality does indeed exist, but that it does not detract from the explanatory power of the framework depicted in Figures 5.1 and 5.2. The *engineering stance* is seen to be the result of a continuous pattern of strategic actions. It embodies the small firm's resulting attitude towards how resources are deployed to add value within the firm. This stance will also influence strategic actions, possibly to no small extent. Actions would be expected to occur that are dictated by the firm's *engineering stance* and that, in turn, complement the stance and possibly alter and refine its configuration.

Appendix 8.3.3 The Resource-based Stance

The second sub-category that identifies a further behavioural stance of the firm is termed the *resource-based stance*. This stance looks at the ensuing organizational design and setup, particularly the organization's resource bundle consisting of human, physical and organizational resources (Barney 1986, 1991). This resource-based setup has been described as the structures and processes deployed by a firm to reduce environmental uncertainty (Kotter 1979). In other words the organizational design is a reaction to how the external environment is perceived, with the small firm being shaped by the environment, the characteristics of the owner-manager, and the various strategic actions taken. The *resource-based stance* emerged within the research to be a multi-dimensional construct that consists of three properties. The first, the human resource base, looks into employee qualifications, skills, education, autonomy, the particular management style, and the organizational structures deployed. The second property, the physical resource base, consists of the tangible, intangible and financial resources owned by the small firm. The third property is the organizational resource base, consisting of systems, processes, standards, level of service, the more intangible aspects such as the organization's culture, as well as networks, associations, company – supplier, and company – client liaisons that are formed. A total of 350 references were made by owner-managers to this particular stance. The three properties are described in more detail below:

The Human Resource Base (214 References)

This property relates to the various aspects of human resource deployment within the firm, with many attributes referred to by participants such as the quantity and skills base of existing employees, organizational structure adopted, the particular management style of the dominant coalition, human resource strategies and incentives predominant within the firm, autonomy and empowerment/delegation at different management levels, and particular attributes of key members such as attributes, behaviours and characteristics of key employees within the firm. Owner-manager descriptions of the human resource base were very vivid, clearly depicting the outcomes of actions being taken to build a sustainable and cost-effective resource setup. Descriptions would be given of the challenges and costs relating to training schemes, levels of staff turnover and reasons for these, successes in increasing resource quantities or in levels of specialization, diversity of trades and issues of motivation and flexibility, balances achieved between full timers and part timers, structures and levels of empowerment and flexibility deployed, and so on.

Many descriptions bordered on the personal level, with owner-managers often talking about their employees as if they were family, showing a strong attachment and loyalty towards the workforces in question. Most organizational structures described were flat and centralized, although one could easily see the tendency of firms to increase in structure and bureaucracy as firms grew larger and more complex.

The Physical Resource Base (86 References)

Participants looked towards their physical resource base as a tangible bundle of assets that they had gradually acquired, and that allowed them to compete in a particular way. The property was somewhat generic, looking into the following: The range of a tangible assets such as the plant, equipment, buildings, land, instrumentation and infrastructures owned or utilized by the firm; The organizational setup with respect to equity and capital deployed and share distribution among various members; Ownership of the firm whether a limited liability, sole trader, partnership or trust; Liabilities and third party sources of finance; And details of the cost base that the company had developed relating to its value adding activities. Owner-managers were very explicit in their descriptions of both how the physical resource base had been built, and how this allowed them to carve out a unique position within their particular industry. One firm detailed how the purchase of a costly printing mechanical setup allowed it to be the only competitive provider of book prints that could be printed in any number, even just a single print. Another firm explained how the acquisition of cold stores and a fleet of vehicles allowed the firm to compete more aggressively in the ship supply industry. A small laboratory firm detailed how the company had had to buy back a number of shares from an uncooperative shareholder, in a bid to regain control and direction of the firm. A ship repair company explained how the investment in a large workshop at the local freeport had given them a strategic advantage in servicing large ocean vessels. And so on. The descriptions provided by participants were not only rich in detail, but clearly showed the interaction of content with process. Reasons for investing, described in conjunction with actions taken to invest, would be shown to result in particular resource bundles that provided the firm with a unique position within an industry.

The Organizational Resource Base (50 References)

This property was utilized to capture the more tacit and intangible resource components referred to by participants. References were made to a wide array of resource components such as systems, processes and standards adopted by the firm, the key networks developed and maintained, partners and supporting agencies interacting with the firm, knowledge-based resources developed by the firm, brand identity acquired by the firm, and the embodiment of the company's culture, its unique way of doing things. In many cases the organizational resource was seen by owner-managers to be a vital asset, due to its inimitable and unsubstitutable nature that made it a source of sustainable competitive advantage. One company described how their relationship with the local environmental regulator had been built after years of successful interaction, now paying dividends in assistance and support. A tax advisory firm detailed how they had joined part of a leading international tax consultancy network, this providing them both with clients and with an ongoing knowledge transfer. A perfume wholesale firm outlined how their dynamic yet informal and friendly culture allowed them to interact easily and with flexibility to clients' needs. And so on. Again, the content – process relationship emerged clearly in the detailed descriptions given, with respondents demonstrating the context, and the actions, that led them to create particular organizational resource bundles.

Appendix 8.3.4 The Business Stance

Together with the first two stances (the *engineering stance* and the *resource-based stance*) a third positional stance was adopted by small firms, illustrated in Figure 5.1 as being of major prominence. This is the *business stance* adopted by the small firm, a sub-category referred to 169 times by participants. Small firms were seen to show a certain behavioural trait that indentified their propensity towards more, or possibly less, entrepreneurial inclinations. Three predominant entrepreneurial traits were observed, not inconsistent with the literature on the subject (e.g. Kets de Vries 1977; Miller 1983; Rauch et al. 2009; Wiklund and Shepherd 2005). These three properties were risk acceptance, proactiveness, and innovative behaviour towards competition. As defined by Baldwin and Gellatly (2003), for the small firm innovation embodies the entrepreneurial spirit, acting as the lifeblood of a market economy, increasing product ranges whilst lowering prices, and creating wealth whilst rewarding risk taking. Innovation is all about new ideas and creative processes, aiming at the creation of new products, services and processes. Innovation is usually looked at from two angles; product-market innovation and technological innovation. Proactiveness refers to the taking of new initiatives by anticipating and pursuing new opportunities and markets. It relates to first-mover advantage and to the aggressiveness through which an entrepreneurial organization competes. Risk-taking consists of an organization's willingness to engage in risky ventures, as well as management's propensity to adopt bold, as opposed to cautious behaviour.

A somewhat different coding strategy was adopted for this particular sub-category. In the previous text, coding has been centred around properties, allowing for a build-up of conceptual depth for the categories represented by these properties. In the early research stages this same approach was adopted for the three properties (risk, proactiveness and innovativeness) relating to the *business stance* sub-category. As research unfolded and it became more and more clear how the properties were defining a limited number of unique strategic stances, the coding schema within MAXqda was altered to allow the unfolding stances to be positioned in replacement of the three properties. Constant comparison and verification fine tuned the process, emanating in four distinct business stances (outlined below and described in more detail in Chapter 6). This actually moved the analytic and interpretive stages of the research further into the earlier research stages, as businesses could be matched to the business stance that they were most closely oriented to. As an example, if a business (or more accurately the respondent) constantly made reference to risk averse, non–proactive, low innovative behaviour, then the firm would be classified as having a *small business orientation* (described below). Each text reference mentioning these conservative behaviours would be coded into the *small business orientation* sub-category. And so on.

Small Business Orientation (26 References)

This classification describes firms that have a low risk propensity, low levels of innovativeness, and little if any proactive behaviour. 13 firms demonstrated *small business orientation* traits. The owner-managers were often emotionally attached to the business, seeing it as an extension of their personality or life status. The business was often deemed to be a means of generating family income, with no additional ambitions or aspirations. Sometimes businesses were part-time ventures, starting off this way in their early induction phase. There was often an approach towards satisficing and not maximizing, where the firm was a means with which the owner-manager could enjoy more leisure time, or as a means of providing personal satisfaction and a sense of achievement. In some cases the owner-manager was in or near retirement age, and was happy to have the firm operating as it was. In a number of situations the business was a means of passing something onto a younger generation, and the owner-manager had no urgent need to develop the firm, only to preserve it as it was until new blood arrived. The term 'small business orientation' has been adopted from the text of Runyan, Droge and Swinney (2008) who describe very well this particular category of business behaviour.

Functional Efficiency Orientation (71 References)

Firms here were observed to have a particular approach towards competitiveness, best explained as an efficiency or productivity-oriented philosophy. Innovativeness and proactiveness drives were limited towards a narrow product range and a specialization within this range. Risk was contained by the lack of diversification of the firm, and by building up a *resource-based stance* and *engineering stance* focused directly towards the product range. Operational efficiency was often achieved through routinization of processes and repetition of core activities. For more project-oriented firms such as the various engineering companies, project efficiency was achieved through repetitive applications and modifications within a similar line of expertise or business. Companies were often observed to be geared towards cost control and efficiency maximization. From the owner-manager statements there appeared to be two motives for this stance; no real objective of increasing the existing product/service/market base, or fighting to survive and cutting costs and marketing efforts in the process. 34 firms demonstrated *functional efficiency orientation* traits.

Related Diversification Orientation (32 References)

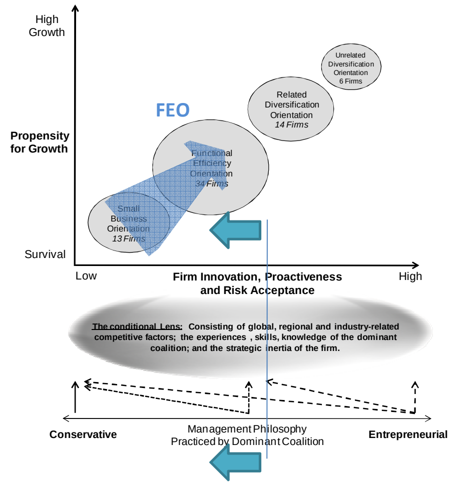
As the name implies, owner-managers referred to this classification when describing an organizational stance that was somewhat cautiously diversifying into technologies and product markets that were related to, or direct offshoots of, the core areas of business operation. Risk approaches were higher than the two orientations mentioned before, and innovative approaches were being adopted to allow the firm to branch out, albeit cautiously. The firms relating to this classification were observed to be proactively creating a competitive advantage by capitalizing on existing resource and engineering configurations and expertise. One example of this was a first-mover firm in waste management that subsequently opened up a new business unit in waste consultancy services. Another example is a wholesale/retail firm that had started off as a supplier of farm products and equipment but had eventually expanded into fire control systems, water piping systems, water purification and control systems and wastewater. The areas were all offshoots of the initial area of expertise, but allowed the firm to tap new industries and new markets. Generally speaking, companies relating to this classification appeared willing to grow, but were cautious about going into truly innovative and new areas of expertise. So much so that one can argue that the approach was one of moderate risk, and based on capitalizing upon existing competencies. 14 firms demonstrated *related diversification orientation* traits.

Unrelated Diversification Orientation (40 References)

References were made to this classification by firms that were branching off from the industries and markets that they had initially started out in. As the name implies, the stance looks towards unrelated diversification where firms were going into new avenues, areas of expertise, new products and services. Owner-managers of firms relating to this stance described taking strategic actions to diversify into new industries, markets and consumer segments, often through internationalization. One example is an engineering firm that gradually diversified into three entirely different industries; that of telecommunications project integration, laboratory supplies of analysis equipment, and medical suppliers of gases and fuels used within the hospital environment. The owner-manager here admitted that having three of the four board members as engineers was one of the main instigators of this proactive entrance into different industries. Another firm started off as the owners and managers of some half dozen pharmacies on the Island, but subsequently diversified into running a call centre and help desk for a large global firm, as well as a holding centre for goods at the local freeport. This business had actually set a goal that by 2010 at least 70% of their turnover had to come from overseas business. Companies referring to this stance demonstrated the least aversion to risk, higher levels of innovation, and proactiveness towards competition and competitors alike. 6 firms demonstrated *unrelated diversification orientation* traits.

Appendix 9: Individual Firm Trajectories

Appendix 9.1: Firms Following a *Controlled Focus* Trajectory



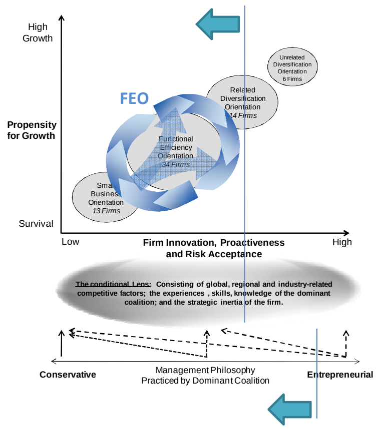
Firm 1: Services, 9 employees

Electrical Systems Consultants

A good level of alignment between the management philosophy and the conditional lens. The company has developed from a part time business where the owner was solely involved, to a small limited liability firm with some 9 professional employees, mainly electrical and civil engineers.

The firm Is now in functional efficiency, and in its maturity stage. It functions as a flexible firm, pulling in additional employees and projects as the need arises. The focus has been, and still is on electrical services and design, and the firm has become highly competent in this area.

1 member in dominant coalition



Firm 7: Services, 9 employees

Software/system integration/POS

A small company that works as a flexible firm in functional efficiency, expanding and shrinking as workloads fluctuate.

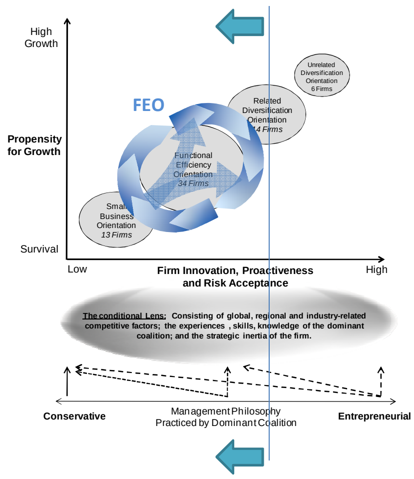
The company is being faced with an increasingly dynamic and competitive industry, and a clientele with less liquidity and more choice.

The major factors limiting further expansion into other IT areas are twofold:

1) The industry has become increasingly competitive, with new companies freely entering and established firms fighting for the retention of market share.
2) The owner/manager, although highly entrepreneurial in innovativeness, demands that he is involved with all clients and in all projects, not really trusting his employees to far.

Company really in a loop-within-a-loop form of behaviour, expanding and contracting as new projects come in and old close down.

1 member in dominant coalition



Firm 8: Services, 14 employees

Architectural Firm

A small company that works as a flexible firm in functional efficiency, expanding and shrinking as workloads fluctuate.

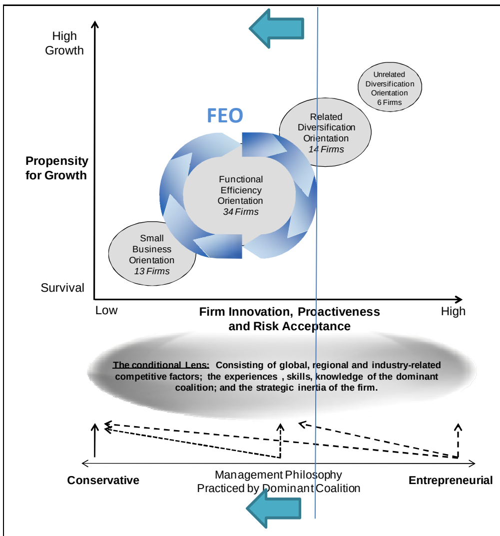
The standard architectural firm that is fairly large in size, with 17 employees.

A strong and conservative focus on a range of architectural activities that are too closely related to be deemed diversification. These are; structural design, civil engineering, quantity surveying, environmental impact assessments…

The main concept is simple; capture as much work as possible in boom periods, and then work towards sustaining the client base in lull periods.

Financial Performance:
Partnership, hence unavailable

3 members in dominant coalition



Firm 9: Manufacture, 45 employees

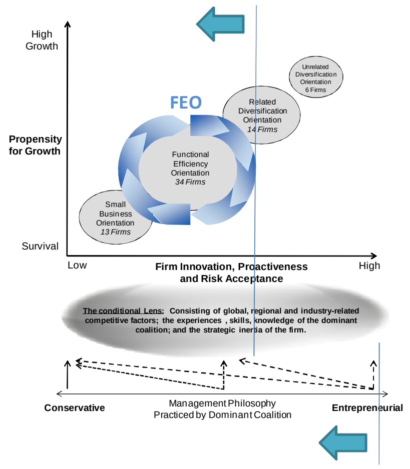
Quality testing/sorting firm

A large engineering firm that has reached maturity and has settled to an ideal size of just under 50 employees. One notes here that although the size is large (employee wise), there is a low propensity for growth.

The firm carries out one basic, low technology task; sorting. This involves the manual checking of components for possible flaws. Very little change. In fact, one can relate propensity for growth with propensity for change.

The firm is constrained in growth/change by two factors; a mechanized industry that is based upon economies of scale, and a very rigid, quality oriented and fairly conservative owner/manager.

1 member in dominant coalition



Firm 10: Retail, 20 employees

Perfume importation/retail

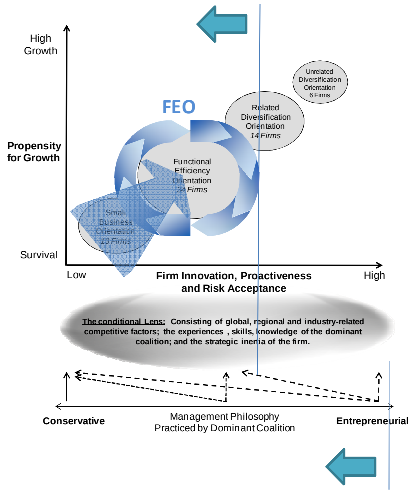
This 20 man company acts as the retail and marketing branch to a well established perfume importation house.

The director/manager is an extremely dynamic and heuristic individual, very passionate about the job and full of ideas on how to do business in a more innovative way.

Having said this, she admits that the business, in fact the whole industry, is in maturity. The ease with which competitors can parallel trade, pull in competing perfumes with equally enticing bottles and names, and import small quantities, makes all innovative marketing moves easy to copy. Barriers of entry into this industry are low,

Also, the availability of information to the client; internet and magazines, makes the client more informed, practically moving the industry into perfect competition and making marketing moves less effective.

2 members in dominant coalition



Firm 12: Services, 6 employees

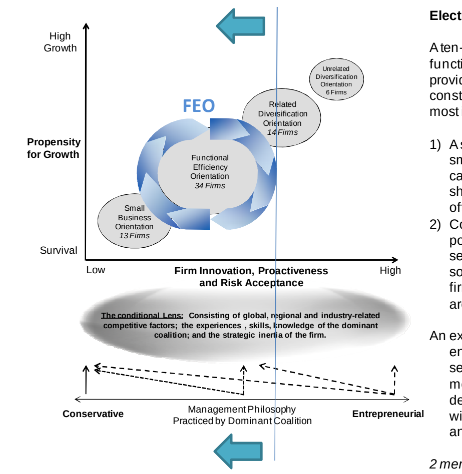
Car Park Service

Essentially a car park management company, six employees. Started off as a partnership between two investors and developed into a company by the owner/manager , the son of one of the partners.

The entrepreneurial behaviour of the owner/manager is evident, he would like to add a second storey to the car park, add shops and other revenue generating activities (such as sponsoring conferences). However, the actual park is owned by a larger adjacent complex, and the owner/manager has little say on the final behaviour of the business. This explains the segregation of the firm behaviour from the management philosophy.

A stable business and industry, punctuated by small changes as allowed by the larger site owner.

1 member in dominant coalition



Firm 22: **Services, 10 employees**

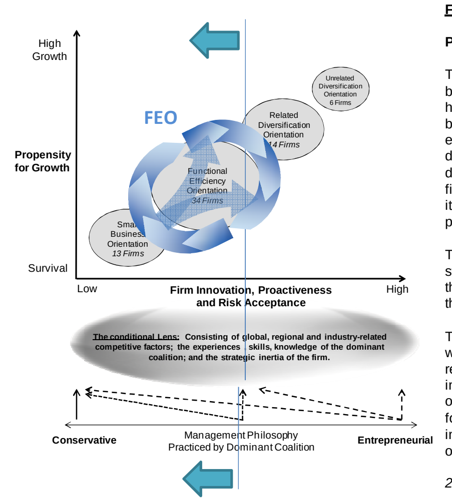
Electrical services consultants

A ten-man electrical services company, very functionally oriented, focused solely on providing electrical design schemes to large construction projects, going a bit further than most in two regards:

1) A stronger resource base than the smaller competitors, meaning that they can take on large jobs that come up at short notice. This seems to happen often.
2) Controlling as much of the contract as possible. This means managing the services contract as a turn-key, and sourcing out work to, say, architectural firms instead of being pulled in by the architectural firm.

An excellent level of strategic fit. A dynamic environment with more and more small service-provider firms coming in and more difficult legislation and complex design criteria. This matches very well with the owner/manager's mechanistic and focused engineering approach.

2 members in dominant coalition



Firm 30: **Services, 22 employees**

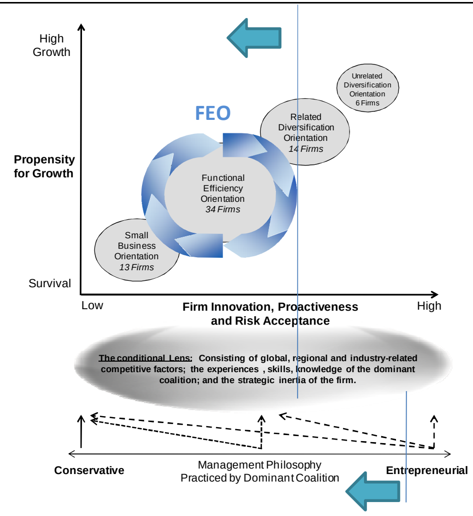
Printing Firm

The firm boasts 22 employees, but has been that way for a number of years, and has been in existence for 16 years. The business is at the high end of functional efficiency, and has had a very moderate diversification from printing into graphics design, marketing and advertising. The firm is well suited for the FEO stance, as it has one of the half dozen flexographic printers in Europe.

There seems to be a good level of strategic fit between the environment and the management philosophy of one of the two owner/managers.

The industry conditions are rather hostile, with advertising investment down in related industries such as the automobile industry. This matches the owner/manager's rather conservative, focused approach, where he wants to be involved and in control of all daily operations.

2 members in dominant coalition



Firm 36: **Services, 2 employees**

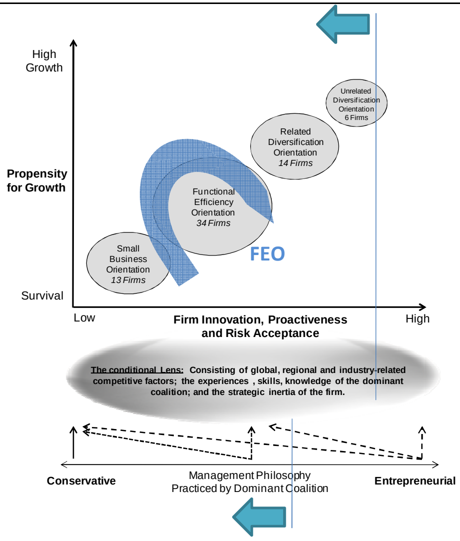
Laboratory Services

The owner/manager has exhibited strong signs of entrepreneurial behaviour that do not match the evident FEO situation of the organization.

It appears to be the case that his philosophy is conditioned by his knowledge of the industry and how to manage his firm within the various industry constraints.

Apparently aware of this constraint, this owner/manager is actually reading for a degree in management, even though he is already academically qualified . The idea is that he will gradually overcome the experience and knowledge limitations that are impeding him from achieving his ultimate goals.

1 member in dominant coalition



__Firm 42__: **Services, 6 employees**

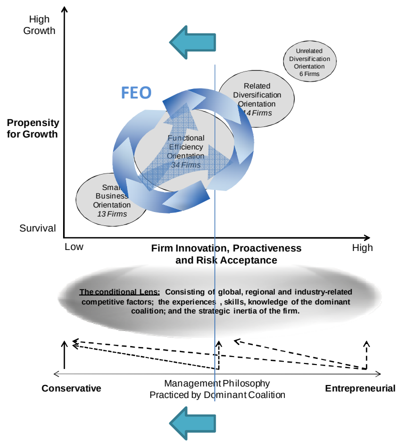
Tax Consultants

Clearly a functional efficiency orientation with no interest in moving out of this stance and no aim of increasing the company size beyond a certain limit.

All the attributes of the strategy point in the same direction… focus on tax expertise, choice clients, high level locality, top employees…

This all ties down with the strategic mindset of the owner/manager.

1 member in dominant coalition



__Firm 45__: **Services, 9 employees**

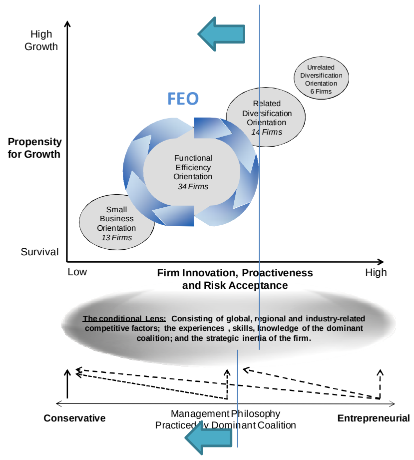
Tool importation and retail

What looks to be a functional efficiency orientation with a bit of a difference. There is a routinised way being adopted, but each project is tackled exactly as that… as a project and not an operation. This means that it is unique in the workmanship, materials, objectives. Also means that firm expands and contracts according to the projects at hand. Major focus on marine engineering.

This clarifies the concept that FEO can be seen to apply to both projects and operations. Nothing inconsistent here, merely a clarification that FEO doesn't solely have to apply to routinised operations.

The owner/manager's characteristics and philosophy have come out most strongly in this interview. He is the owner and driving force behind the company. Soon to retire, he is a highly experienced and disciplined tradesman. His philosophy is to do an excellent job, pulling in vast mechanical engineering expertise into the company, using top quality materials imported by his company.

1 member in dominant coalition



__Firm 53__: **Manufacture, 15 employees**

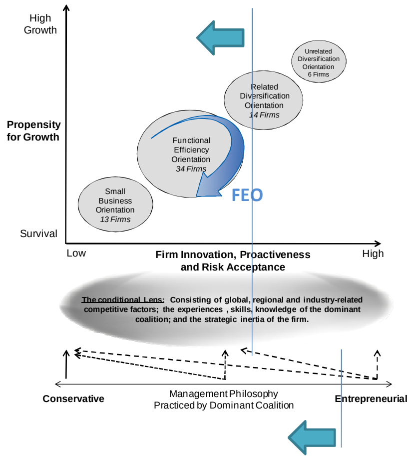
Steel Door Manufacturer

The owner/manager is a humble but determined character, very focused but risk averse. An example of this is her reluctance to take on an ERDF loan to expand or innovate, as she firm would have to fork out 50% of the cost. The approach taken is a cautious, efficiency oriented one, based upon mechanized operations and standardized materials and processes.

The firm is competing in a highly aggressive steel door manufacturing industry, where the large number of players and standardized product severely reduce profitability. It is fairly easy to enter this market and share a part of the limited market share. The firm has a small advantage in automation and size, allowing it to reduce somewhat its costs.

Although these are hard times and the firm is limited spending, both the management philosophy and the conditional cloud limit the business stance to FEO. Possibly the model can also show a shrinking FEO ellipse to indicate the market and state of this particular industry.

1 member in dominant coalition



Firm 55: **Services, 6 employees**

Maintenance Software Providers

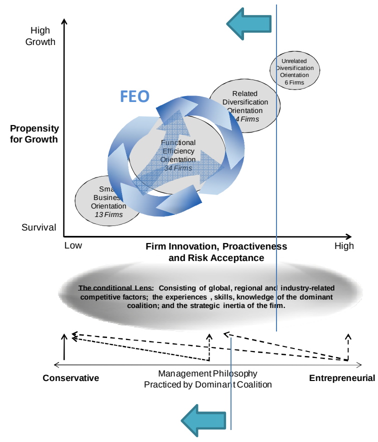
Company focused on one core product, maintenance software . The company does other tasks, such as maintaining client ICT systems, but this is really just as a support mechanism for cash flows, and does not indicate attempts at true diversification.

The owner/manager has a clearly entrepreneurial form of management philosophy. He has been the first mover in applying a number of technologies locally, and has attempted to open up a successful business more than once. Risk taking, innovativeness and proactiveness are all there.

Notwithstanding his attempts, he is dealing with a very dynamic and aggressive environment, particularly the global industry. Three main setbacks within the conditional lens:

1) The local customer is not used to investing in proactive maintenance. Using local work as a showcase is being found problematic.
2) Free maintenance software packages are available on the international market, mainly as incentives by new competitors.
3) The owner/manager has limited marketing knowledge, and has, so far relied on web advertising. The fundamental changes that maintenance software bring about in a business require a much more personalized form of marketing, at least until brand recognition is achieved.

1 member in dominant coalition



Firm 62: **Services, 2 employees**

Events Management and Interpretation

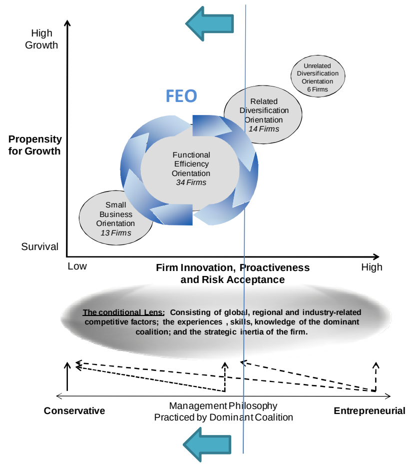
A small company that works as a flexible firm in functional efficiency, expanding and shrinking as workloads fluctuate, where translators are sub-contracted in according to the languages and expertise required. There is a very moderate level of RDO as two complementary areas of focus are targeted; translation and PR, although the industries and markets are really the same. So much so that the owner/manager sees interpreting as a spill-off of PV, i.e. a consequence of their work in organizing events.

PR => Events management
Translations => Interpretation

Another loop-within-a-loop example. Not the typical B-G-M-D lifecyle, but a firm that was always the same size, and grows or shrinks according to the work load and by this outsourcing of tasks in a 'flexible firm' fashion.

The owner/manager is a gentle and focused person who loves doing a job in detail and thoroughly. The firm is very inflexible about quality, going as far as having all translated documents proof read. Company is limited by the conservative nature of the owner/manager, so much so that in the large global market for translations, the firm is not even evident when searching the net for a Maltese translator.

2 members in dominant coalition



Firm 64: **Manufacture, 5 employees**

Manufacture/Retail of Paints

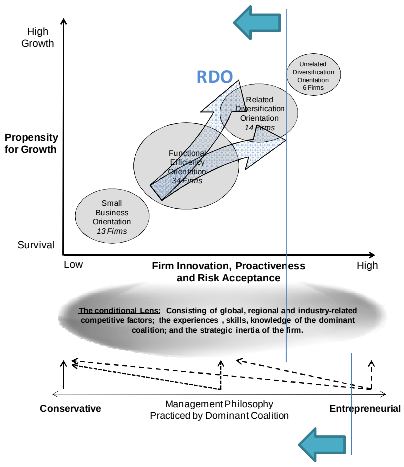
A five man company dedicated to the manufacture and wholesale of paints, evidently in maturity and operating a in functional efficiency stance. No real ambitions of the owners to move beyond this stance, and they are happy with contending with a product designed for the local market (plastic and water emulsions, graffiato, compounds).

There is a lot of congruency between the environment in question and the management philosophy. The owners have come from a background supportive to the industry, and are largely uneducated any further. They are content to market by word of mouth, sustain an existing market share, and control for cost efficiencies.

The firm is only entrepreneurial, in a contained way, in its actions and activities to come up with innovative paint colours for interior decorating, as their speciality in internal water paints that compete with gloss paints.

3 members in dominant coalition

Appendix 9.2: Firms Following a *Contained Growth* Trajectory



Firm 3: Retail, 6 employees

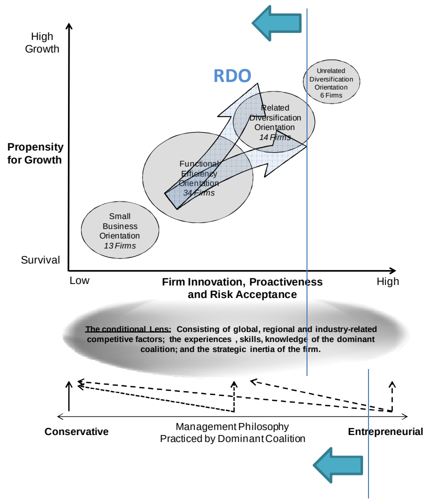
Retailer/wholesaler of agricultural/heavy engineering industry goods

A company that has evolved from a small agriculture retail business to a related diversification orientation that now focuses on retail within agriculture, the building industry and the heavy engineering industry (water and wastewater). Various competency and market overlaps make one consider the diversification related, as opposed to unrelated.

Not a large firm, with 6 employees, but driven by an entrepreneurial owner/manager who considers himself akin to a 'libero' in a football game. The firm's growth is stunted by a very aggressive industry where more and more small local firms are entering into retail.

Over here one must challenge the term 'growth', as the firm in question is set on acquiring more and more product lines, even though the employee count of the firm has not increased much over the last 5 years.

1 member in dominant coalition



Firm 14: Retail/Services, 6 employees

Import/retail/services in IT equipment

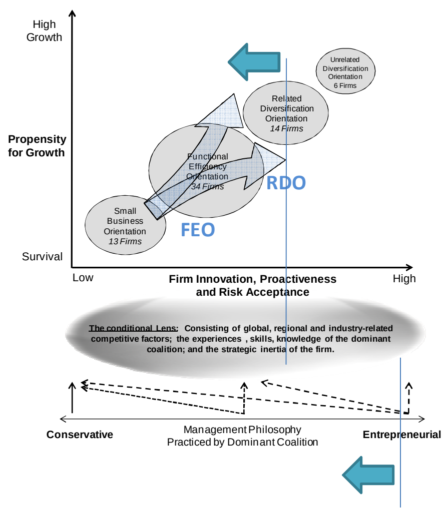
An innovative firm, branching into export and opening up a new block for retail, repair and administration. The business started off by the father but then taken over by the sons, who are engineers. Although there is a lot of industry competition, the brothers have managed to tap into promising North African markets.

The firm had initially started off in mainly PC repair, but have diversified into UPS's, printer/toners, CCTV, and security systems.

Fuelled by a tiny local market, the brothers have acted most aggressively in their expansion efforts, penetrating markets that were not theirs initially.

High focus on customer satisfaction, such that the phone in the office was only allowed to ring so many times. The brothers use the concept of red and blue; red is when a firm fights to survive in a saturated industry, a blue ocean is when the firm taps into new markets with innovative products. The brothers pride themselves on taking the blue approach.

2 members in dominant coalition



Firm 18: Manufacture/Services, 40 employees

Quality Control/Sorting Company

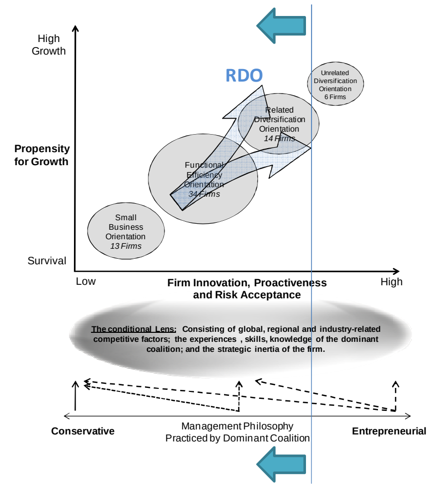
Previously in FEO although fast becoming an RDO. A company that has managed to grow fast, becoming one of the few quality/sorting companies on the Island. The business seems to have reached a plateau with a limited local market of manufacturing firms that require quality sorting.

However the owner/manager (one of two) is a highly entrepreneurial individual, and does not want to accept a company in maturity. He has already taken steps to try to open up in China, carrying out similar quality testing works.

The owner/manager sees some serious limitations to the local industry, particularly forthcoming changes to company tax for manufacturing firms.

The flexible working style and innovative working processes show his attempts at creating innovation within what would normally be considered as a standardized engineering task.

2 members in dominant coalition



Firm 20: **Retail/Services, 17 employees**

IT equipment and system provider

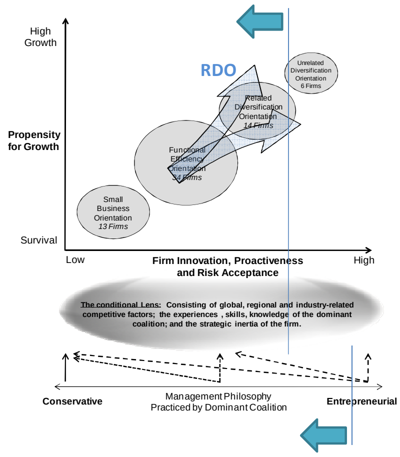
A company in existence for 20 years, which is a long time period for an IT firm in Malta. One of the two owner/managers is an engineer by profession, and is very thorough and systematic in his approach and mindset, somewhat risk averse.

The company has moderately diversified into export of reconditioned equipment to North Africa, leasing of PC systems to the local government, servicing high end corporate clients (i.e. gaming), tendering, and PC assembly/sales.

The core belief of the firm is in building a quality relationship with clients, and in sustaining that relationship. The main objectives are revenue generation through quantity + quality in the various areas of operation.

A high level of synergy between the aggressive environment and the moderately entrepreneurial philosophy of the owners.

2 members in dominant coalition



Firm 32: **Services, 12 employees**

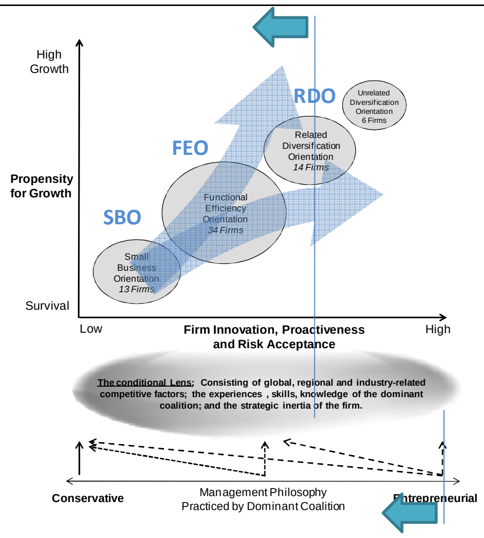
Architectural Firm

A company that has evolved from a one-man architectural firm to a 12-man diversified firm dealing in four related areas; architecture and civil engineering, structures, EIA's and master planning. The firm has just added new employees, is looking for more, and has moved into a new, larger office.

The driving force behind the firm is the owner/manager who is an extremely hard working architect and entrepreneur, who admits that it is a good thing that he has his accountant to hold him back! He is still in his early 40's, but has done a lot of work abroad, and know the architectural industry and international legislation by heart.

This owner/manager feels that the only way to grow further is not to expand into other areas (i.e. unrelated), but to go abroad into larger markets. He sees the local market as saturated, and that little more can be done by his firm locally to grow further. He reasons 'grow or die', as he sees an increasingly competitive local scenario with the large firms and new one-man firms eating up on market share.

1 member in dominant coalition



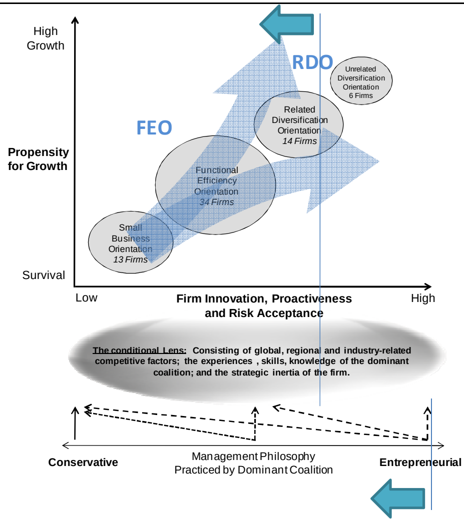
Firm 39: **Manufacture, 14 employees**

Stone Masons

The owner/manager is an entrepreneurial person, and is also highly skilled and knowledgeable of the industry.

The combination of entrepreneurial aptitude coupled with the industry knowledge and skills, as well as very good leadership skills, have allowed him to diversify and grow not withstanding a small and dynamic market.

2 members in dominant coalition



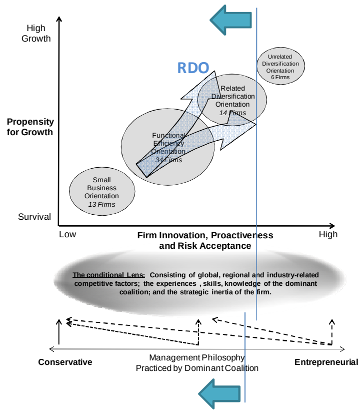
Firm 40: Manufacture, 17employees

Wire and Steel Manufacture/Commissioning

An excellent example of how a dominant firm within a small, contained industry has succeeded in molding his environment such that the conditional lens now holds practically no local industry competitors.

The firm does not need to move out of RDO as it has all the capabilities required to compete there, and is highly specialized in metal-based manufacturing. New products have been added on (at the expense of competitors), but always in the same industry that the owner knows so well.

1 member in dominant coalition



Firm 48: Retail, 6 employees

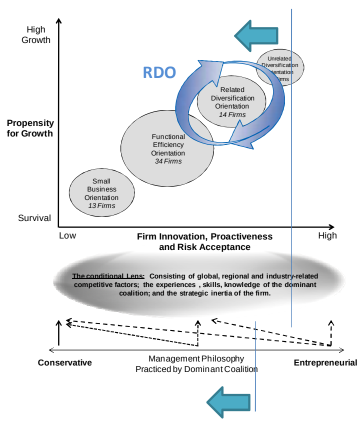
Tool Importation and Calibration

An interesting concept regarding diversification. The owner/manager practices related diversification, as opposed to unrelated diversification. The new product lines are all within the same general business area, such as in the automobile industry or the industrial calibration industry. However, there is an evident limit when it comes to any high risk unrelated diversification.

The owner/manager is gradually enhancing existing product lines with additional services and products, such as commissioning and calibration. He is also adding new product lines but only in related areas. After 15 years the business is still in gradual growth. Virtually unaffected by the economic situation, if not positively so as weaker companies fail and more work comes in.

One of the clearest cases of related diversification orientation (RDO). The company wholesales/retails quality precision tools. Local agents for a range of mostly German originated tools and equipment. Top brands. The owner/manager is a seasoned business person, previously and still in the textile business. Very good business acumen, a risk taker though evidently a contained risk taker. Believes in providing high quality tools and service. Lifetime guarantee.

1 member in dominant coalition



Firm 54: Retail/Services, 5 employees

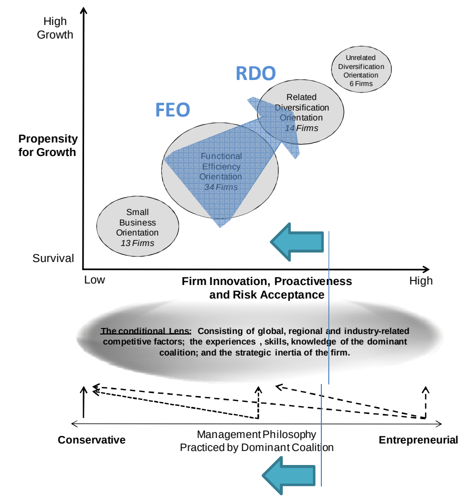
IT/System Retail and Services

Predominantly RDO. The owner/manager describes how he embarks upon different lifecycle curves every time he takes on a new product line or service. The firm moved from cash registers to home PC's, to commercial PC's, to point-of-sale systems… always using previous experience to build on a new focus.

This is an interesting concept where every related diversification effort is seen to be a loop or cycle around the continuous effort to cautiously diversify. It does not appear that the environment is the main conditioning factor towards limited diversification, more the management philosophy of the owner/manager, who is a technical person and is cautious about more entrepreneurial activities such as marketing.

Again, here the all important link between FEO and RDO becomes apparent. There is still one core activity for the firm; the stock control point-of-sale system. The expertise of the owner, coupled with his experience and knowledge of the industry, has allowed him to carefully diversify into the industrial PC market, equipment recycling, point-of-sale equipment, and different IT related applications. Another interesting point mentioned by the owner/manager; the shifting environment that necessitates changes in the choice of functional strategies. One can look at this as a shifting conditional lens, inducing different constraints at different times.

1 member in dominant coalition



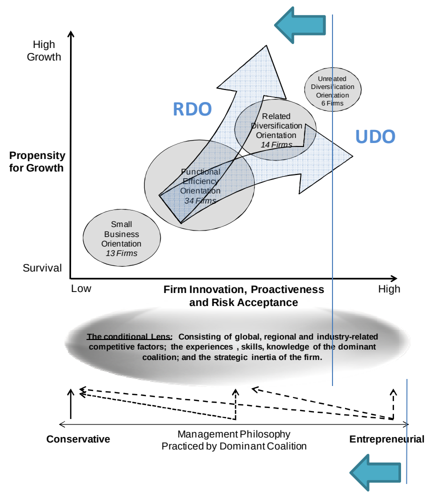
Firm 56: Services, 15 employees

Seamless Flooring and Waterproofing Services

A good level of alignment between the management philosophy and the conditional lens. The technical director is focused on creating alterations to a basic waterproofing compound, in accordance to what the market needs. The company has moderately diversified into two areas, seamless flooring and roof/wall waterproofing. Fairly innovative but in a focused way. The second director is responsible for management. The two have a cautious approach towards developing the business, and actually admit that they never really wanted the company to grow the size it is.

The management philosophy of the directors is really that of a cautiously expanding family business; care for the employees, very customer focused and practically paranoid about excellent quality. The market/industry does appear to have scope for further expansion, but this is not really a main priority for the directors.

2 members in dominant coalition



Firm 59: Services, 48 employees

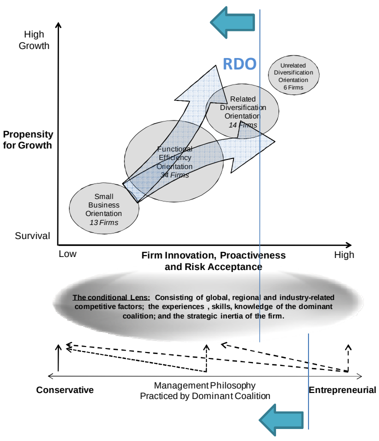
Audio Visual Services Firm

A company growing to nearly 50 full time employees. The founder/owner is the visionary behind the organization, creating it and guiding it in a very focused, clear fashion over the years. He is now chairman, with his children acting as executive management. A very influential start-up situation, all due to the owner/manager's youth in his father's video shop. He was exposed to filming, editing, and also the artistic side; learning art and piano. A highly multi skilled and entrepreneurial individual, now nearing retirement.

The firm is one of the large audio-visual companies on the island. Looks like a high level of related diversification, arguably going into unrelated diversification; stand design/construction, digital satellite communication, electronics, etc. One would argue that the focus is on two close industries; conferencing and exhibitions/fairs. A diverse workforce, from carpenters to electricians, electronics, labourers…

The owner/manager sees the future in the local scene, but fed through international clients coming to Malta for conference/fair needs. Issue of national support towards creating a conferencing industry of international level. Major conditional factor is a lack of vision and support from local infrastructure 'keepers'. Interview concluded when the president of Malta turned up to visit the firm!

1 member in dominant coalition



Firm 61: Manufacture, 39 employees

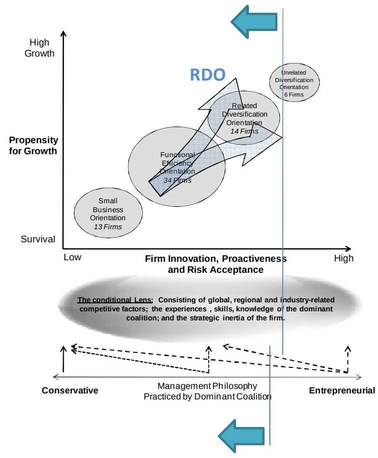
Ornamental Glass Manufacturer

A company that has moderately relatedly diversified from glass blowing and into two additional areas of specialization; fused glass and lamp work. The three areas of specialization utilize different manufacturing techniques, materials and skills. The firm has taken the opportunity, in the global recession, to refine and enhance the efficiencies and effectiveness of its operations.

A number of major strategic moves have been deployed over the years. First, the firm has gone to world experts to develop a moldable glass product that allows for easy and flexible working. Then they have reduced dependency on a few large buyers, and in a few countries. Then they have focused on home buyers as opposed to just tourists, opening up more the local market. They have also done away with agents, dealing predominantly with retail outlets. Less dependency on large buyers, a stronger home market and an enhanced product range.

Looking at the external environment, it is interesting to see how the firm has counteracted threats from China and losses in large consumers with alterations to the product base and changing focus on different market segments. For example, as Chinese imports were low quality products, the counter move was towards high quality home decorative glass, moving towards uniqueness and added value.

1 member in dominant coalition



Firm 63: Services/Retail, 11 employees

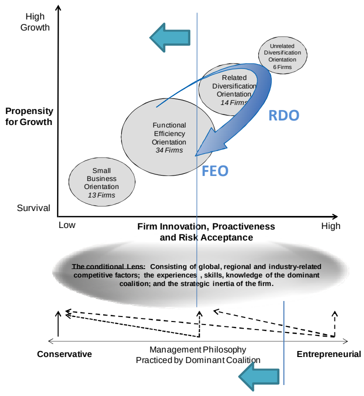
Boat Refurbishment/Maintenance Services

A company in existence for 25 years, that has increased marginally in employee count but significantly in plant size since moving away from fiberglass manufacture and into the marine industry. A clear picture of a functional efficiency firm (low end fiberglass manufacture) expanding into related diversification (RDO), and focusing on three complementary high-end areas: boat sales/agency; mechanical maintenance; and boat refurbishment. The diverse skills and competencies of the firm support this diversification.

A number of factors limit the firm to where it is (RDO). The owner/manager wants to be involved in all processes, and finds the present labour force size controllable. He does not want to go into truly undiversified areas which are not his core competencies and where competition is strong. Complementary to the above, his distinctive capability lies in a strong quality-related after sales service. Furthermore, the environment for new boats is shrinking whilst that of servicing existing craft is still strong… competition in this area is relatively weak. The owner/manager has many overlapping competencies, such as employee soft skills, technical knowledge, a strong customer focus… He mentioned that he directly liaises with consumers, who are all diverse and have different needs and approaches/attitudes. He will then use this 'consumer picture' to build up his product and after sales. With respect to after-sales, he is only interested in a boat sale as this will provide him with a possible lifetime of after sales revenues. This is the core business model, having a strong boat agency helps.

1 member in dominant coalition

Appendix 9.3: Firms Following a *Repositioning* Trajectory



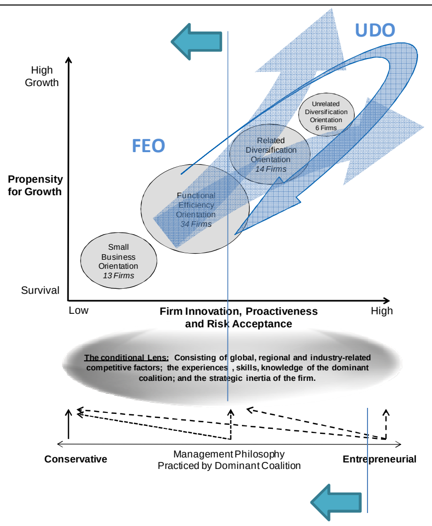
Firm 2: Manufacture, 47 employees

Electronics Component Manufacturer

The owner/manager has created a small manufacturing company from virtually nothing, and notwithstanding his educational limitations shows a strong entrepreneurial spirit. Attempts have been made by the owner/manager to open up his product range and to diversify into complementary product areas, but with limited success. This is so much so that he has now decided to focus on one core product (higher end) that has been designed in house and will be manufactured to client specifications. Limitations induced by competitive lens:

1. Local industry has started to outsource all main sub-contracting of electronics development/testing/manufacture to plants in Asia. Very little quality work left available locally.
2. Investment assistance and equipment purchase/lease conditions are not at all favorable locally. Coupled to this is the fact that technology change is very rapid in this small scale electronics industry.
3. Local companies hold no loyalties, and if the firm cannot adopt, say, the ISO standards they require they will simply go elsewhere. Foreign companies find suppliers with larger economies of scale so will hesitate to look at this firm.
4. Local costs, such as electricity, are increasing, whilst customers are fighting for price reductions.

1 member in dominant coalition



Firm 4: Services, 25 employees

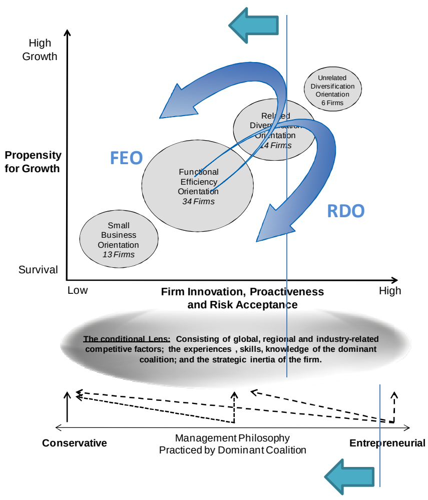
Aperture Manufacture/Installation

A company that has gradually expanded and branched out from a small family business to a group of 8 companies that go into unrelated diversified areas such as motor school, aluminum, wood importation, furniture, etc.

The group now functions in a typical style of having the head office/administration taking care of the management and administration, and the 8 business units working in a functional efficiency mode, doing the best to survive in an increasingly competitive local climate.

Whilst the business is trying to penetrate foreign markets, it is more focused on sustaining existing market shares, and on cutting costs. Labour is largely unskilled or semi skilled, and the business looks towards maintaining a quality level with a blend of innovativeness and standardization.

1 member in dominant coalition



Firm 5: Retail/Services, 30 employees

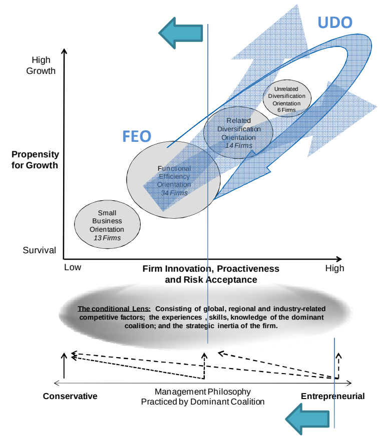
Import/retail and commissioning of electrical/electronic/lighting systems

The main driving force behind this firm is the owner/manager, who, from my personal knowledge of her as well as the interview, is by all counts an entrepreneurial individual. The company has, over recent years, carried out related diversification into some six areas all to do with electrical/electronics systems.

The increasingly aggressive industry has, however, forced the company to consolidate and to retrench, still remaining in related diversification, but working more now towards efficiency and cost control within each business unit. Arguably now more in an FEO mindset.

Interestingly the clarity of the strategy – performance link is most visible in the owner/manager comments. Her main performance measure is the balance sheet, by which she can measure growth of the company. This ties down well to the FE orientation.

3 members in dominant coalition



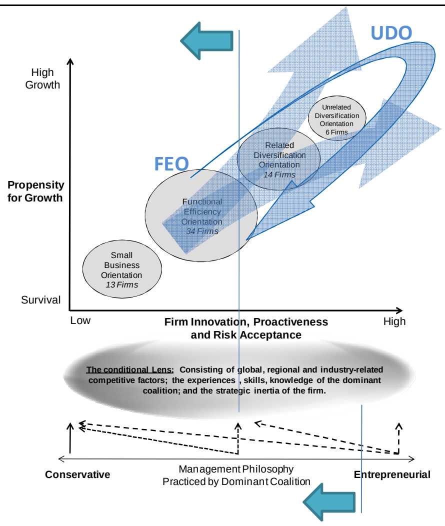
Firm 11: Retail, 40 employees

Importation/retail of household/family goods

A company that has made a name on the island for its success in penetrating a number of industries, the baby line market, the textile market and the household goods market. The firm had successfully gone into unrelated diversification in these three business areas, largely driven by the entrepreneurial management philosophy of the owner/manager.

In all three areas, the firm is retrenching, making each business unit enhance efficiencies, cut costs, fight off the increasing competition. Can be seen to be a firm that has created business units that now are each operating in functional efficiency. Little overlapping competencies and synergies. Best looked at as a firm that has diversified into 3 FEO business units. The environment has provided more than just increased industry competition. People's consumption habits have changed. Family sizes have decreased, changing spending habit s on baby line products (more quality, less quantity). Textiles is seen to be a dying industry with people no longer buying materials for sewing clothes. Competition in the household goods sector has also increased drastically.

1 member in dominant coalition



Firm 17: Services, 19 employees

Engineering Services

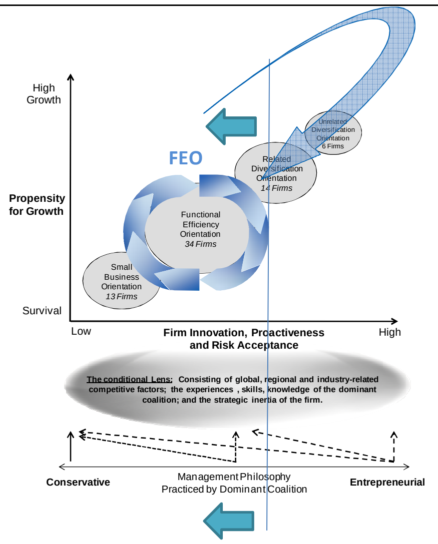
A company that had diversified into unrelated areas in its early days, but is now being forced to consolidate and retrench as the relevant industries become increasingly competitive.

The firm initially diversified into the three areas of telecommunications, laboratory equipment and medical gases, working in both services and retail.

Attempts to open up to foreign markets have been partially successful, with a contained penetration in Libya.

Other to that this is a typical case of a business that managed to diversify in better times, but is now fighting to retain market share. Now really in FEO mode more than anything else.

3 members in dominant coalition



Firm 21: Manufacture, 8 employees

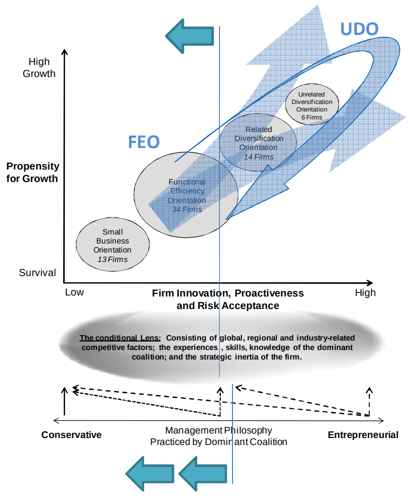
Manufacture of commercial drainage systems

A company set up in Malta by an international firm to carry out the manufacture and sale of drainage systems of various designs, from small standardized to large customized.

The objectives of this firm are simple; to act as an outreach branch to the mother company, create a value added product for which the local skills and engineering costs are affordable. In fact, the local firm now carries out most of the manufacture required by the mother company.

A high level of synergy between the conditional lens and the management philosophy. The engineering manager is focused, knowledgeable, but risk averse to a substantial extent. Similarly, the conditional situation is that of an industry and mother company that require a quality, reliable and obedient business unit.

2 members in dominant coalition



Firm 24: **Manufacture, 37 employees**

Manufacture of stainless steel structures

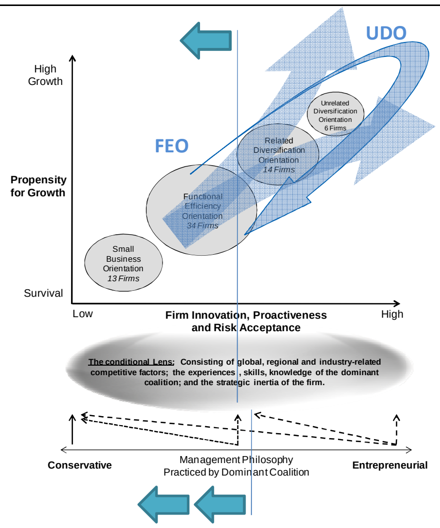
A business that has gone through the traditional business life cycle, initially expanding into unrelated diversification by going into different areas of expertise, but now contracting back in size. The general manager is a very focused and thorough engineer, low on entrepreneurial behaviour but excellent at implementing procedure, cost cutting and efficiency enhancements. This is exactly what the shareholders want as the business faces an enormous amount of local and foreign competition, and is fighting for survival.

The company's brand name was bought from an earlier branded company (situated outside Malta) that was going bankrupt. The firm is rather large, with 37 full time employees and having been in existence for just over 15 years. Company is shrinking in size and output due to the increased competitive forces.

Company manufactures customized stainless steel fabrications, such as staircases, pressure vessels, tanks, tops…

One notes the relation between the management philosophy and the increased competitive conditions. The manager was handpicked by the shareholders to spear drive the efficiency enhancements badly needed.

1 member in dominant coalition



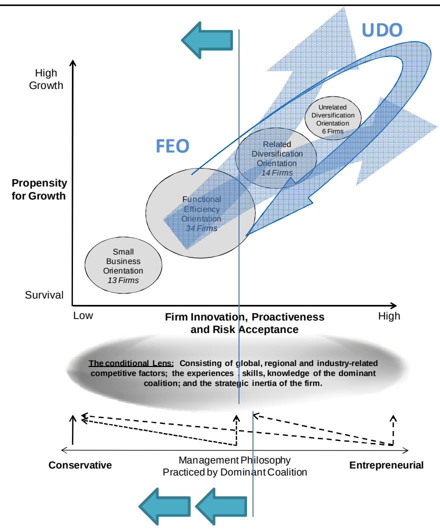
Firm 25: **Services, 49 employees**

Maintenance Service Provider

A service provider to the Malta Freeport, carrying out manually intensive tasks such as maintenance, installations, repairs, overhauls. The business grew very fast but is now in its maturity stage, although the manager would like to see the same business approach replicated abroad.

One notes the relation between the management philosophy and the increased competitive conditions. The manager was chosen by the shareholders to spear drive the efficiency enhancements that were badly needed due to the increasingly adverse competitive climate.

1 member in dominant coalition



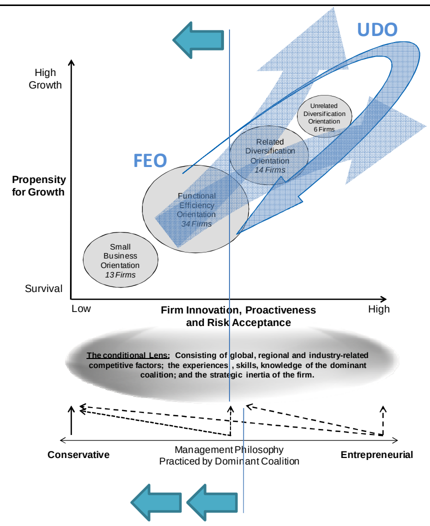
Firm 26: **Services, 2 employees**

Security Software Provider

A small, two man business, moving from FEO first into UDO, but subsequently towards SBO and in a possible decline stage. Selling security software in a foreign country, and trying to branch into sales of Microsoft software systems.

One notes the relation between the management philosophy and the increased competitive conditions. The manager was handpicked by the shareholders to spear drive the efficiency enhancements needed.

1 member in dominant coalition



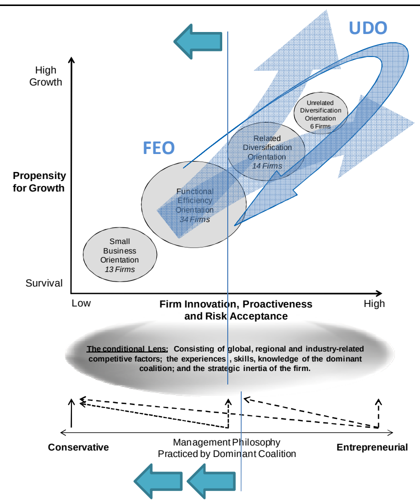
Firm 27: **Retail/Services, 3 employees**

IT Service Provider

A company initially diversifying, but then moving from FEO to SBO or to closure. The firm is a local IT provider that has only a few (some 40) clients in the hospitality industry. It is a bad industry to service, it itself in decline and with a very poor paying track record. Using three employees to provide workstation support. A company openly stating that the main objective is survival.

One notes the relation between the management philosophy and the increased competitive conditions. The owner/manager was identified by the shareholders to implement the efficiency enhancements badly needed.

1 member in dominant coalition



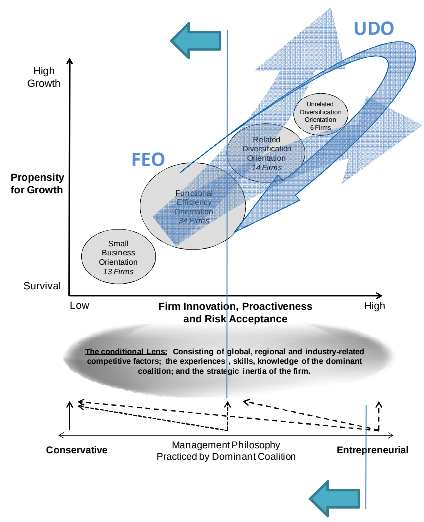
Firm 28: **Retail/Services, 10 employees**

PC Rental Services

A company that is now most effectively positioned in the functional efficiency mode, after retracting from a UDO state. The ten-man company provides PC rental and related support, mainly to Government departments. Very low risk and innovativeness, very stable industry.

One notes the relation between the management philosophy and the increased competitive conditions. This owner was chosen by the shareholders to implement the efficiency enhancements that were needed.

1 member in dominant coalition



Firm 31: **Manufacture, 9 employees**

Manufacturer of Cigars

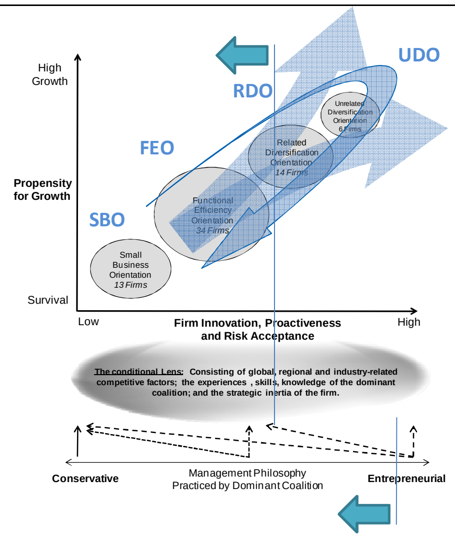
A company that has diversified over the years into a number of unrelated areas such as into cigar manufacture, refrigeration, blending/epoxy paint manufacture, tampo printing…

The owner/manager is a highly energetic entrepreneur, although at retirement age. He has managed a number of companies abroad, and has used his vast engineering skills to go into a number of profitable lines of business. He is presently inducting a young family member into the business, who is also an engineer and has just completed a number of years training at a high-tech industry.

The local environment is seen to be negatively affecting the firm, particularly the rising energy and labour costs, together with facility rental and park maintenance. He finds these negatives frustrating, and feels that more can be done by local decision makers.

The result has been an outsourcing of much of the mechanical manufacturing procedures (such as tobacco leaf preparation) to low cost firms outside the island, with the local wing carrying out the high value added processes only, and this with a fraction of staff that once were deployed. Stabilizing at FEO with fixed output quotas.

1 member in dominant coalition



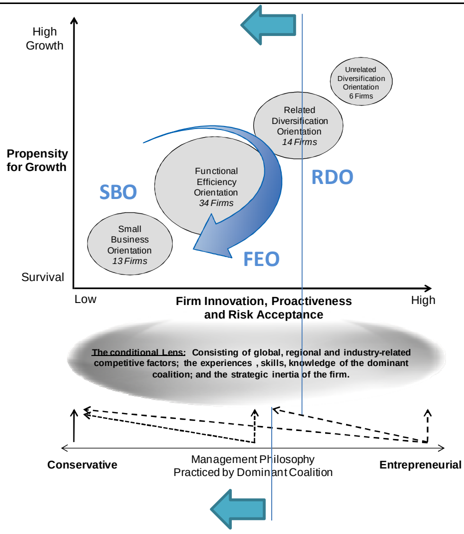
Firm 37: **Services, 2 employees**

Accounting/Marketing/Importation

The owner/manager is an entrepreneurial person, skilled in both accountancy and marketing. The company started off (initially part-time) as a consultancy/accountancy firm, but then the owner/manager added non-diversified functions to the extent that two additional companies were opened (now going outside the sphere of a business unit; into construction and energy drinks). In order to focus on these new businesses, the initial firm was used as a cash cow and was operated at FEO.

As the new companies are now reaching maturity, the owner/manager is now re-focusing on the initial business, possibly to re-energize the business and diversify somewhat.

1 member in dominant coalition



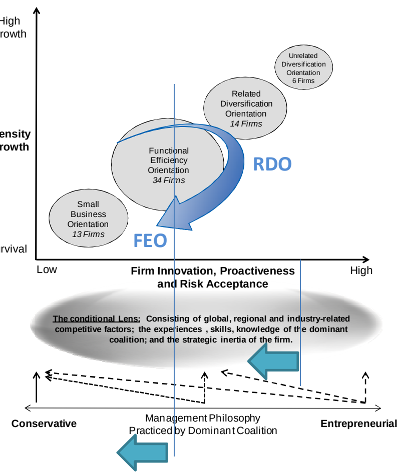
Firm 46: **Services, 1 employee**

Recording Studio

An evident case where a small business has started off in functional efficiency, attempted to diversify into related diversification (audio + video editing) and failed, and then retrenched into just audio. Very close to SBO behaviour.

The limited entrepreneurial behaviour of the individual is evident in his philosophy towards risk and innovativeness. Understandably, the dynamic industry and particular manager mindset induce the firm to settle to an FEO orientation.

1 member in dominant coalition



Firm 51: **Services, 3 employees**

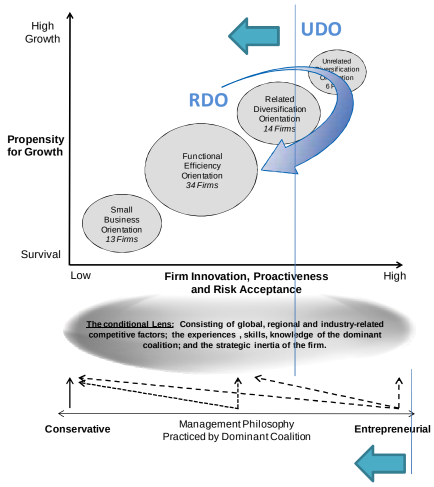
Accounting/Auditing Services

A good example of a functional efficiency (FEO) orientation for a service firm. The owner/manager sees growth being tied down to two things; employee count and diversification in areas of expertise. In other words, as you pull in more employees you will diversify into related and complementary areas of tax, vat, auditing…

The owner/manager has a very conservative personality, wanting to be the front line for all the clients and being informed/involved in all the doings of his employees. Actually admits to employing female staff as they are less likely to poach his clients to build up their own business.

This owner/manager had gone through one failed attempt at growth and related diversification by pulling in a partner. This failed, and he is now focusing heavily on audit related activities. Does not want to grow too much further.

1 member in dominant coalition



Firm 52: Retail/Manufacture, 20 employees

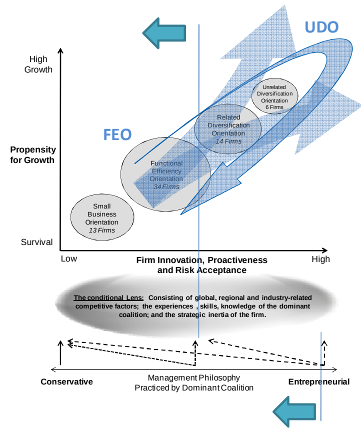
Pottery Makers

Predominantly RDO with a hint of UDO behaviour (diversifying into the restaurant business). This particular case highlights the processual nature of the business stance.

Company has always been managed by an entrepreneur who would go all round the world seeking the best competitive approach for the firm. The business may have started off as FEO, in the early days when the sales were highest and barriers to import were high. In later years the owner/manager re-built the company, going into retail of other products (wines, honey, etc.), but still within his pottery business. Even later the restaurant industry was branched into. Looking at the firm at this point, it is consolidating its core activities, curtailing investment (say in marketing), retrenching into what it does best, and waiting for tourism to pick up again. Seems to be retrenching in RDO by focusing on cost cutting and efficiency in the main areas diversified into.

Forces provided by the conditional lens (both macro and micro) are very strong here.

2 members in dominant coalition



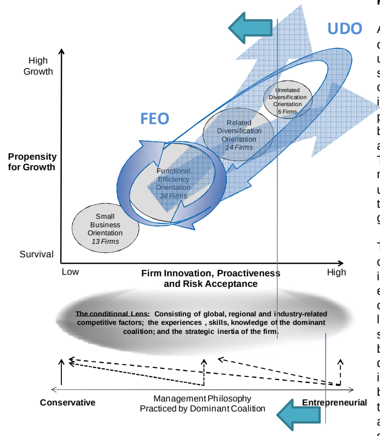
Firm 58: Services, 15 employees

Ship Registration Firm

A company that has grown over the years, and under the direction of the initial founder/owner, diversifying into a number of separate limited liability companies focusing on shipping, insurance, travel agency, etc. The focus of research here is on one of these companies; managed by an employed manager. This is a very evidently functional efficiency orientation, with one core function, that of acting as agents for ship registration in Malta, and assisting ships to hold the Maltese flag as their base of registration.

Interestingly, the model seems to apply very well to this situation of a highly entrepreneurial owner/manager now having very little time to do more than the high level marketing/networking for this business. The business is still a major player in the local shipping industry, but has been swamped by many new players, and is sharing the market more than ever before. Moreover, the manager is a very quiet, focused and conservative person, ideal for maximizing efficiency in an industry focused on quality and standards. This is probably an ideal strategic situation, with one difficulty; the founder has not yet started inducting a successor, meaning that the all-important networking/marketing task has no planned future. He may be stretching his contribution to the many businesses a bit too fine.

2 members in dominant coalition



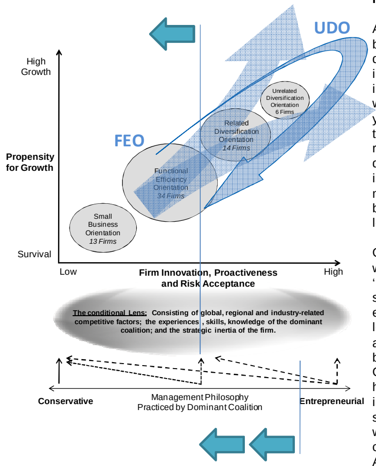
Firm 60: Services, 25 employees

Provision of Ship Services

A company group that has an interesting strategy of: diversifying through growth and specialization; unrelated diversification through partnerships (thus spreading capital/risk and building into complementary areas of expertise. It also shares into the pools of expertise of the companies being partnered with); getting hold of the individual business units and focusing them on a functional area with an experienced, professional manager. To complement the strategy, the functional managers are not highly qualified, but have moved up the organization gradually and are very loyal to the firm. This particular business, part of the larger group, services the shipping industry.

This firm is not so much affected, within the conditional lens, by the local conditions and direct industry, but by the global environment. An example is the price of oil, that affects shipping, consumption… The company is very strong in the local industry, and local environmental factors are stable. The functional growth of the firm is curtailed by a certain reluctance of the directors/owners to delegate, as they want to be hands on and involved. Thus the final functional design of the business unit is a premeditated one, and fits into the corporate strategy. One cannot really appreciate the functional strategy without first seeing the larger picture.

2 members in dominant coalition



<u>Firm 67</u>: Retail/Services, 8 employees

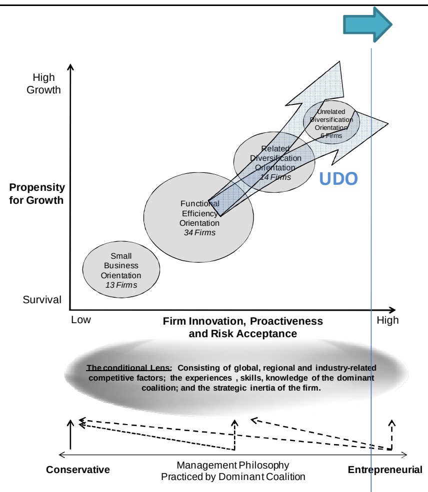
Instrumentation Import/Services

A company that has gone through the traditional business lifecycle, expanding into unrelated diversification by going into three largely different industries: construction support materials; electronic instrumentation; and generics. The owner/managers were able to expand into these areas in the younger years, but are not so capable of holding onto them in these later years where all the owner/managers are at retirement age. The generics branch has been closed down completely, although the generics industry in Malta is doing particularly well. On the construction support materials side the firm is holding its ground, although barely. In the electronics instrumentation, the firm is the local agent to a large, branded multinational.

On the instrumentation side, the company deals mainly with large governmental bids, and this matches their 'maturity' situation, where a consistent, patient and 'slow, slogging' style is required. One of the owner/managers explains that the main issue is the time and monetary losses accrued by having to work with Government. It appears to be the case that Government has a few, well branded firms working in near perfect competition, with Government as the client pulling the strings, dictating how things should go, and enjoying much of the potential industry earnings. Making things worse, the multinational supplier is also highly bureaucratic, and is very stingy with its dealings with the agents on the ground. Thus, the company is effectively being squeezed from both sides! Another example of how an entrepreneurial management philosophy can also function in conservative mode.

2 members in dominant coalition

Appendix 9.4: Firms Following a *Dynamic Growth* Trajectory



Firm 6: Services, 25 employees

Aquaculture, bio-marine activities

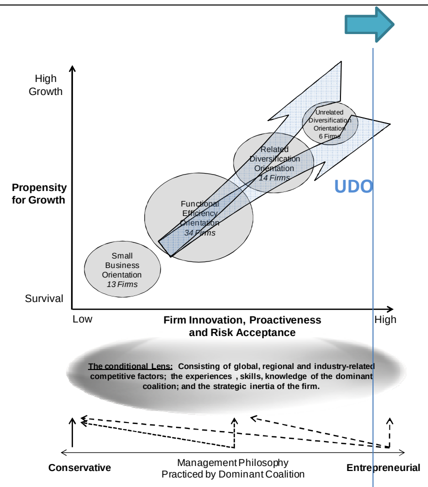
A company that is essentially moving out of the realms of a small business, so much so that the business had to leave the Government incubation centre during the research period and effectively has now also left the island.

The business has expanded into a number of areas of unrelated diversification, although one can see some common threads in the competency base that supports the different areas. The ambitious nature of the owner/manager, together with his impatience with local government bureaucracy, are the driving force behind this expansion.

Areas of diversification include GIS, aquaculture, bio research, aquariums, EIA studies, shrimp farming…

The firm also, so far, works as a flexible firm, pulling in a range of highly skilled professionals from a large portfolio.

3 members in dominant coalition



Firm 13: Retail, 49 employees

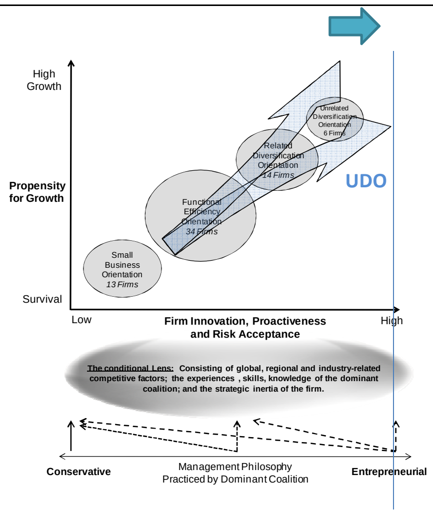
Supermarket/Mall

A company that has opened up one of the first shopping malls on the Island. Started off as a small local supermarket and now boasting telecoms shops, clothes, confectionary, parking, toys. For a retail business is Malta this is an uncommon level of diversification. Only the supermarket business has been considered here, not the whole group.

The company is still in growth, aiming to join two complexes, and adding to its services. They owners have a big advantage, the mall is in one of the largest towns on the Island, and other supermarkets are rather far away.

The director/manager sees the opening of new foreign-owned supermarkets such as Lidl and Pavi as no more than a challenge, one to be overcome with an aggressive and innovative approach. A lot of synergy between the business behaviour and the management philosophy.

3 members in dominant coalition



Firm 15: Retail/Services, 27 employees

Pharmacy Centre/Call Centre/Inventory

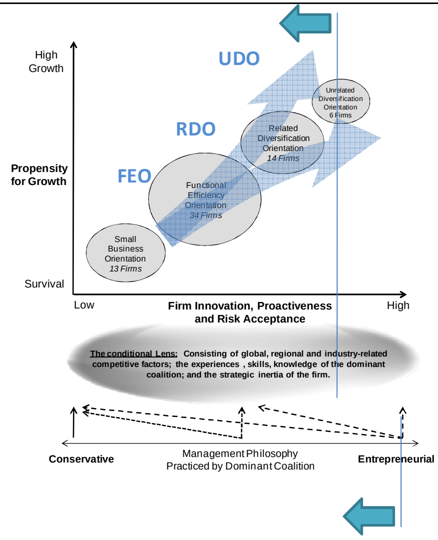
A company that has moved from a small tendering business (on pharmaceuticals for the local government) to an internationalized organization focusing on foreign business and expansion. Moving out of UDO and into a group of companies.

The two owners are pharmacists with management qualifications, and have realized the potential of diversification and expanding into non-local markets. Areas of diversification include:

- Pharmacy retail, the firm owns a number of pharmacies and has an exit strategy for buying, revamping and selling pharmacies.
- A call centre.
- Inventory management for foreign companies at the local shipping industry. Mainly medical and pharmaceutical goods.
- Local pharmacy management for third party pharmacy owners.

The firm ultimately sees revenues and profits as the ultimate performance measure.

2 members in dominant coalition



Firm 29: Manufacture, 49 employees

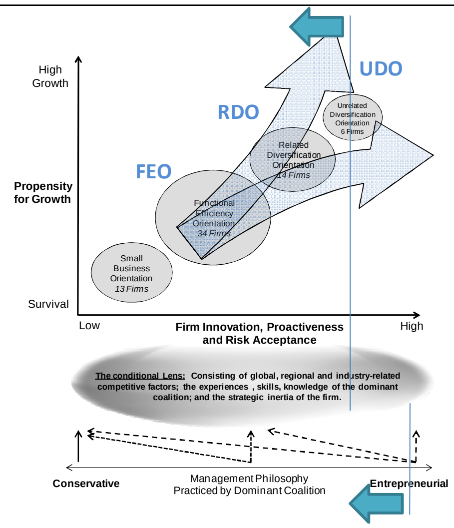
Manufacturer of Sensors

A company in growth, both in product range and in employee size. The firm initially was focused on energy-related sensors, but has now diversified into the water industry (and a particular type of water valve). The firm is in transition from RDO and has become an UDO.

The company is managed by an extremely aggressive and proactive CEO. The CEO has revitalized the firm to operate with a dynamic R&D unit that feeds the manufacturing arm with new innovations and enhancements. The firm re-invests practically all its profits back into the company, and into the research arm.

To fuel its growth, the CEO is constantly looking outside the firm for new markets, and has a number of marketing firms in different parts of the world contracted out and being paid with a percentage of sales. The search for new markets allows the firm to alter the conditional lens.

2 members in dominant coalition



Firm 41: Services, 14 employees

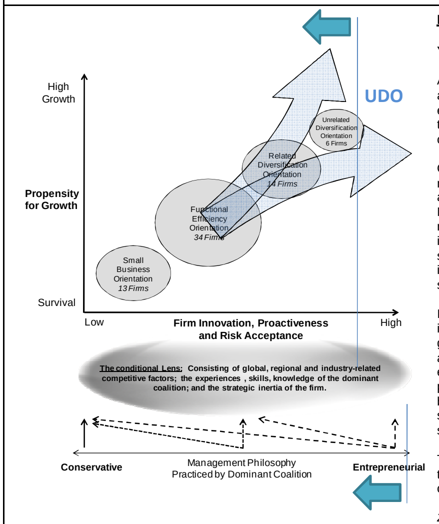
Waste Management Firm

An interesting observation of the boundaries between related and unrelated diversification, and when the firm stops being a single firm.

The owner/manager of this waste reuse company started the company off as a launch-off from an existing business base (may be deemed SBO start-off). The next stage of the lifecycle was a basic operation with the use of one vehicle and some 40 skips (FEO). Further diversifications took place into waste management and controls, sale of bins (RDO). When the company finally diversified further into recycling it saw fit to open up this activity under a new limited liability setup, separate from the main business. This step can be compared to that of a firm that is opening up a new business unit and wants the unit to be self financed and managed.

The owner/manager appears to be a born entrepreneur, bred into the particular mindset from the times of his father's business.

2 members in dominant coalition



Firm 66: Retail/Services, 42 employees

Yacht Paints, Machinery & Construction Industry

A group of companies that has started off in the import of paints and varnish. The company eventually branched into equipment/retailing, paint manufacturing, and servicing mainly on the application of paints. There are now some half-dozen companies working in these three main areas of focus.

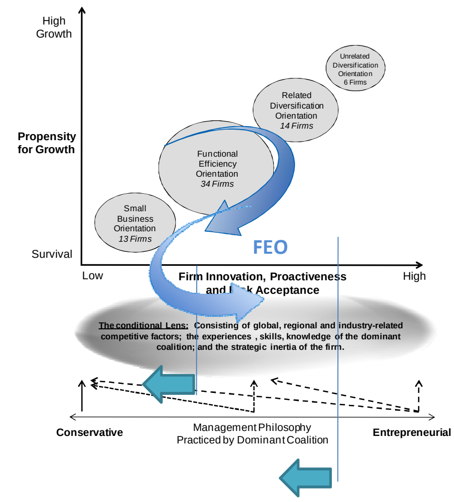
Of the three areas, retail seems to barely break even, the paint manufacture is on hold as they move to a new facility, but the paint application is booming such that the group is now expanding to North Africa. In fact, this appears to be why they are working to revamp the manufacturing side. Also, the equipment/retailing side, including the skills base that this commands, provides an important support to the paint industry. They are also local agents to a large international paint/shipping consortium that refers large ship paint sales to them.

If one is to look at the 3 stances one can see a very logical synergy in the final company setup. The business stance defines the group's mindset of going into unrelated diversification and the risks and innovative/proactive mindsets conducive to the stance. The engineering stance looks at the value adding transformation processes within the three complementary areas. The resource-based stance looks at the human, physical and organizational setups that have, or are, being setup to support the business stance.

The owner/manager admits that if they were in another country, they would have become far larger and more profitable, being curtailed by local market limitations to remain a small business.

2 members in dominant coalition

Appendix 9.5: Firms Following a *Retrenchment* Trajectory



Firm 16: Retail, 8 employees

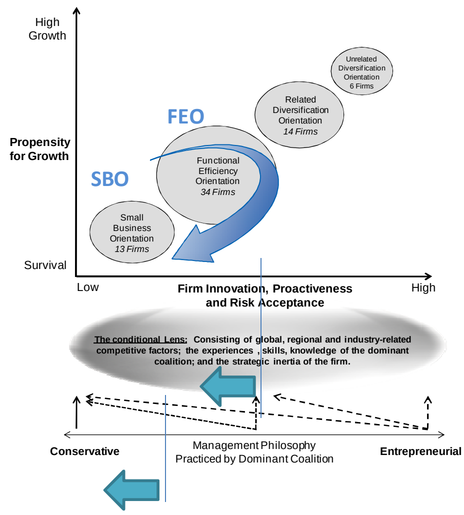
IT/PC Import and Retail

A failed firm and failed industry – owner/manager alignment, as described by the previous owner of this small IT company.

The previous owner describes how he sold this business to the new owner, who had no real IT or business knowledge, notwithstanding that she had the drive and motivation required. A sequence of bad mistakes, poor decisions, bad investments and weak management skills ultimately sunk the company. Possibly the new owner may have been very successful in a different business… but not in this one!

The firm was eventually re-bought by the previous owner, who is now trying to build it up to its original state. Quite a bit of damage to the brand name has been done in the meantime, though.

1 member in dominant coalition



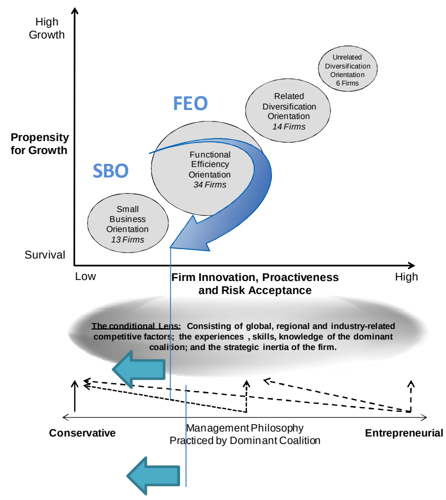
Firm 19: Manufacturing/Services, 1 employee

Carpenter

A clear cut case of a business in SBO, having attempted to double the company size (1 to 2 employees) in a bit to take on more work, but with the owner/manager realizing that this was not what he really wanted.

The owner/manager is near retirement and sees the business as an extension of his life situation and personality. He does not want to go into the hassle of having employees, and is satisfied with clients that are pulled in by word-of-mouth, and that want a diversified product to the low quality imports of furniture.

1 member in dominant coalition



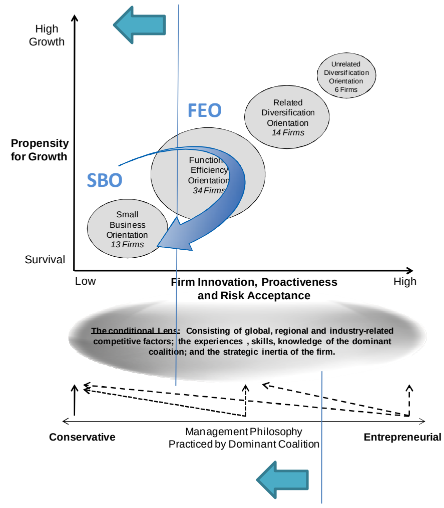
Firm 23: Manufacture, 20 employees

Manufacturer of a Leather Product

A clear cut case of a business in the last remnants of functional efficiency, moving or having already arrived at a small business orientation state.

The industry; cost of material and labour, competition with cheaper substitutes, has put the firm into a position of decline. The general manager himself is a conservative man, moving towards retirement, and seeing sales fall and costs rise. A certain amount of bitterness towards the local environment and the lack of support and spiraling costs.

1 member in dominant coalition



Firm 33: **Manufacture, 5 employees**

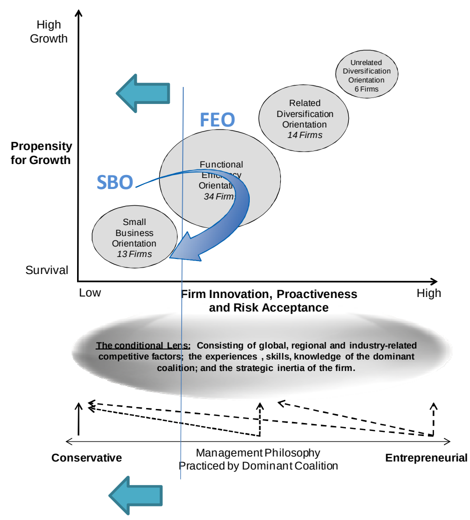
Manufacturer of Sensors

This is a small, 5-man company specializing in one electronic core product. The company has downsized recently due to the increased competition from Asia. The firm has one major client that are also the shareholders, its mother company in Germany. The general manager would like to diversify into service provision; providing a complete measurement-management service to industry.

However, when one looks carefully at the owner's (German shareholders, a family) personal attention to the firm, literally like parents looking after a child, one can see very strong SBO implications. The German family, practically into retirement, treat the firm like family, and show no signs of wanting expansion or added revenues.

The indications of a wish to do more are more the personal initiative of the manager who is a seasoned and respected engineer, although close to retirement himself.

1 member in dominant coalition



Firm 34: **Retail, 12 employees**

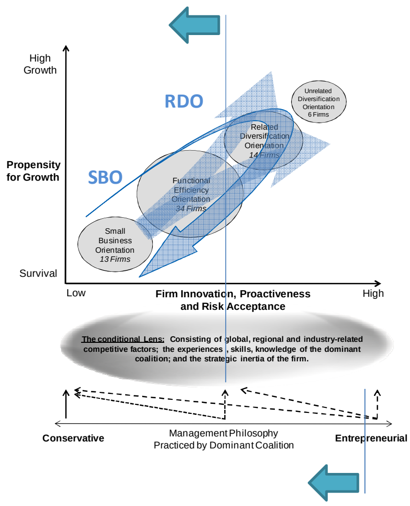
Import/Resale of Confectionary Foodstuffs

This is a confectionary import, sales based firm that is a family business and into late maturity. The firm specializes in the importation of cake and pasta based goods, such as cherries, nuts and such.

The firm is facing increased competition from a number of sources, pushing them into a reluctant SBO orientation. Local firms have increased and clients (particularly larger hospitality clients) can now import their own products on small scales. More so, in the present economic conditions, consumption has gone down, and clients are also looking for cheaper and lower quality products.

It is highly possible that the firm will settle down into this SBO orientation due to the synergy between the conservative stance of the owners and the aggressive industry conditions.

2 members in dominant coalition



Firm 35: **Manufacture, 18 employees**

Mushroom Grower

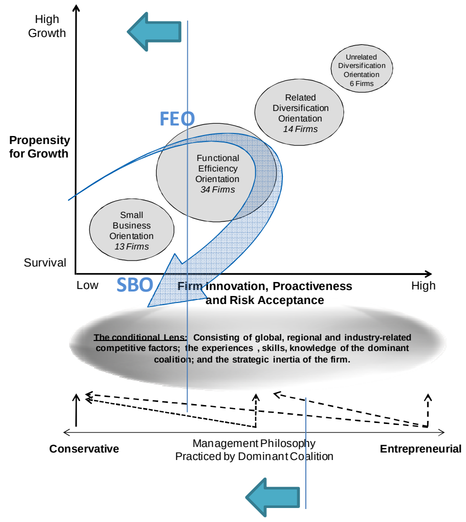
A clear picture of how the particular innovative/entrepreneurial behavior of the owner/manager allowed him to transgress through various business orientations over the years: The firm had achieved a situation of related diversification (RDO) in the late 80s and 90s, when the owner/manager had achieved an excellent blend of the use of compost and mushroom growing.

Then, as the farm reached late maturity he focused more on his personal interests and sustaining the efficiency of the farm (FEO).

Now, in his semi retirement days he is content to let the farm run with minimum problems, whilst he enjoys the benefits together with his family (SBO).

This scenario complements the concept that the high level of entrepreneurial aptitude allowed the owner/manager to transgress between the business states.

1 member in dominant coalition



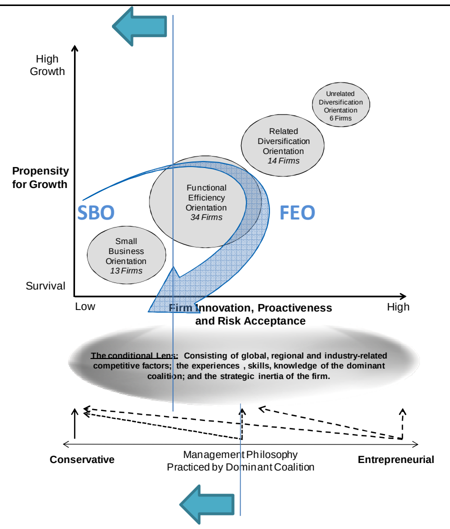
Firm 38: **Services, 7 employees**

Real Estate Agency

The owner/manager of this real estate agency appears to be heavily focused on providing a core function and doing it well, ensuring complete client satisfaction.
Maybe a limited amount of diversified entrepreneurial behavior, but really is a FEO approach.

In the present local industry crisis, firm has shrunk to a SBO orientation, but will probably expand once again if the industry picks up.

2 members in dominant coalition



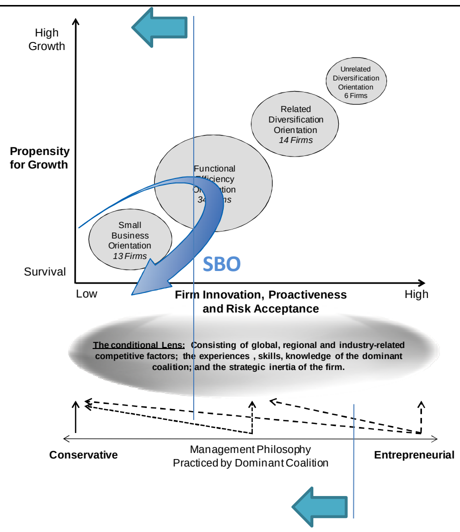
Firm 43: **Manufacture, 6 employees**

Aluminum Works

he firm appears to be operating as a small business orientation. There was never any real diversification in the firm's heyday, at best the integration of aluminum works with importation of aluminum material. Evidently in functional efficiency in earlier years, focused and competitive.

Three important factors have driven the firm from FEO to SBO. These are the ageing workforce (including the owners), the industry operating in near perfect competition, and the massive increase in value of the property of the firm. The property increase means that the firm could actually make more money by leasing out the land and closing shop.

1 member in dominant coalition



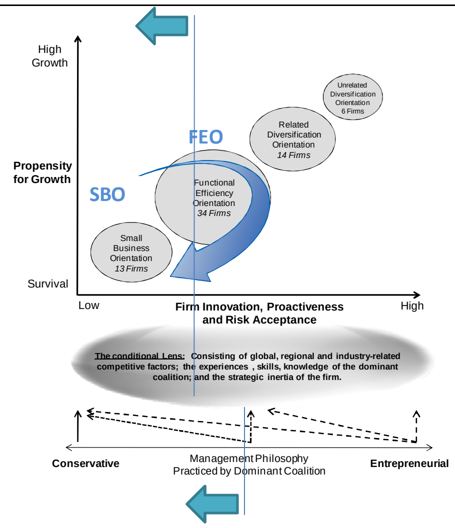
Firm 44: **Retail, 5 employees**

Wood Import and Retail

One of the clearest examples of small business orientation to date. The owner/manager is in his mid retirement years, he has made his money and is in semi retirement, and has no real needs apart from job satisfaction and to end out his working days in a comfortable, pleasant work environment. Company imports and retails wood.

The owner/manager actually works a 3 ½ day week, sending staff home early and going to spend long weekends with his family.

1 member in dominant coalition



Firm 47: Manufacture, 2 employees

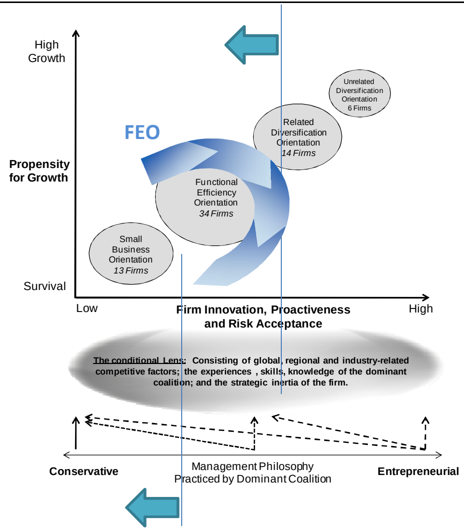
Shoe Manufacturer

An evident case where a small business has built up a functional efficiency stance over its main years, but has gradually, and in late maturity, moved clearly into the small business orientation mode.

As in previous cases, the management philosophy of the owner/manager is conservative, and this matches the stance of the firm.

Furthermore, the conditional lens has thrown forward two main factors that impede anything but SBO. These are the cheap import of low cost shoes, and the particular employee problems that the owner/manager appears to have encountered.

1 member in dominant coalition



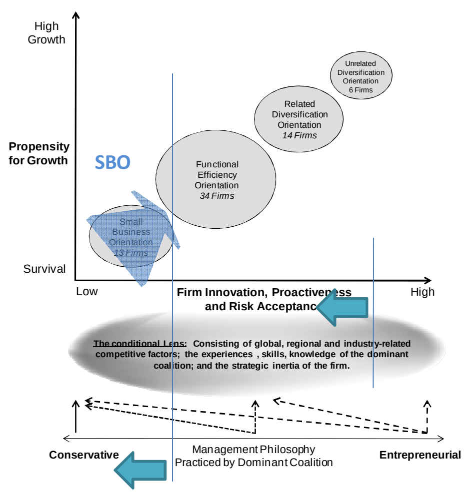
Firm 49: Manufacture, 6 employees

Manufacturer of Plastic Sheets

A number of factors simply impede this manufacturer from diversifying from the present industry concerned to another consumer market. These factors are so powerful that the director/manager of the firm has all but given up and sees the firm's closure as inevitable. Factors are:

-The management philosophy of the owner/manager. He is a pure conservative, with a functional, technical mindset.
-The existing strategic momentum of the firm. Moving away from the existing stances will be most difficult.
- The industry conditions. High cost of fuels coupled with diminishing sales make this a bad choice of time for attempted diversification.

1 member in dominant coalition



Firm 50: Retail/Manufacture, 6 employees

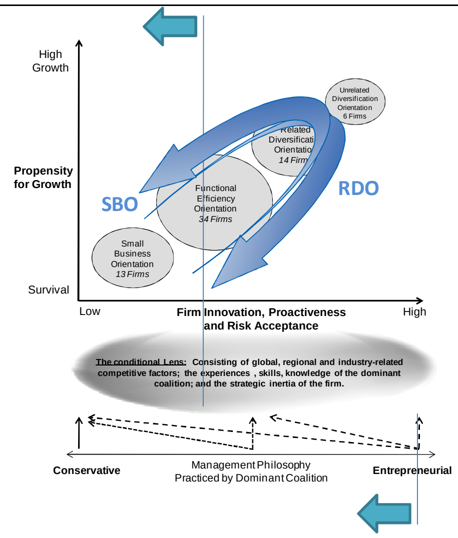
Coffee Manufacturers/Retailers

Notwithstanding a largely munificent environment, where there appears to be room for expansion into additional retail and possibly a more diversified product base, the company appears to be firmly placed at SBO mode.

There appears to be no real limit to expansion from part of the conditional lens, but a very strong match between the family-style management of the owner/manager and the firm's SBO.

The owner/manager is content running the business as a family affair, and the fact that she likes having family joining in the work, indicates her conservative approach. It is not that there is no ambition in the firm, just that they have found a good formula (hard work and customer dedication), and prefer to keep it that way. One of the most content owner/managers I interviewed!

2 members in dominant coalition



Firm 57: **Services, 2 employees**

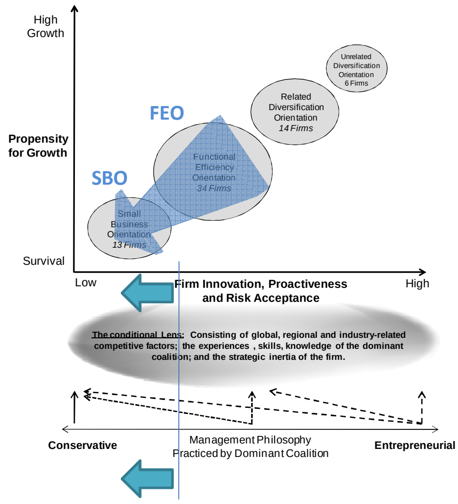
Human Resource Services

Quite a unique situation where the owner/manager of the business has purposely reduced the company in operations and statute, seemingly after a serious health incident that has changed his outlook somewhat.

The owner/manager sees the business to be in a 'forced' state of temporary retirement. His argument is that 'I have reached maturity, my firm has not'. The business started off as a limited liability, and then was changed to a partnership after the owner/manager went through a personal setback. This is a similar example to that *of Firm 36* where the experiences of the dominant coalition have modified or moderated the effect of the management philosophy on the business orientation adopted.

Once again it is difficult to model out the strategic behaviour of the firm without adding the conditional lens as a separate dimension to the management philosophy.

1 member in dominant coalition



Firm 65: **Manufacture, 3 employees**

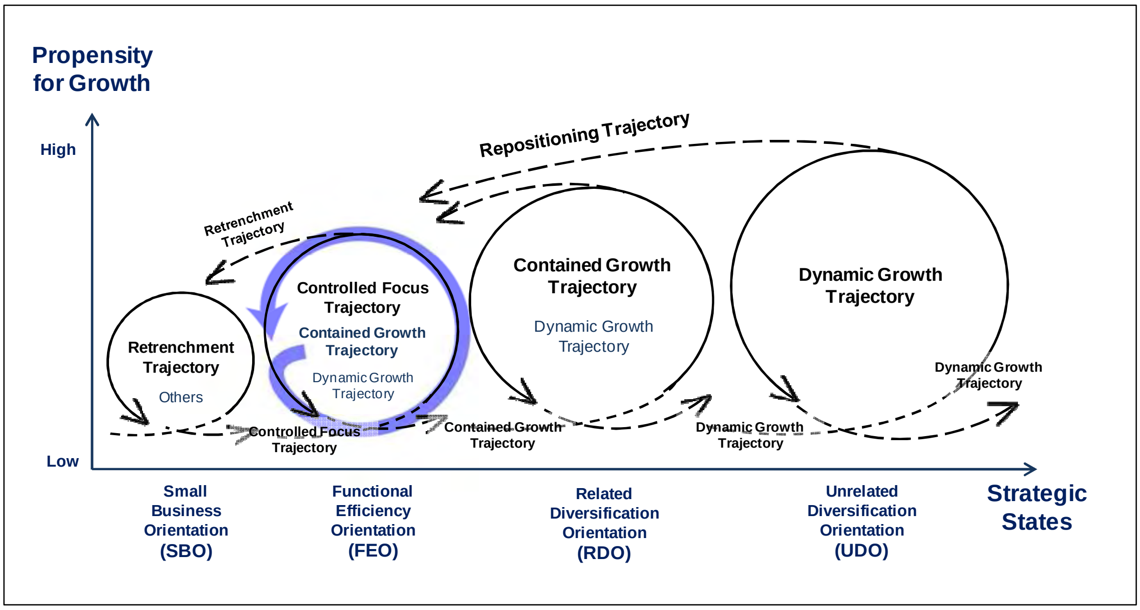
Manufacturer of Candles

Company manufactures candles, both machine manufactured and hand made. A company in decline stages, having downsized to the smallest possible layout. The firm has settled into a SBO configuration, with the owner/manager waiting for his retirement to come along, and openly saying that he sees no future for this form of micro manufacturing business.

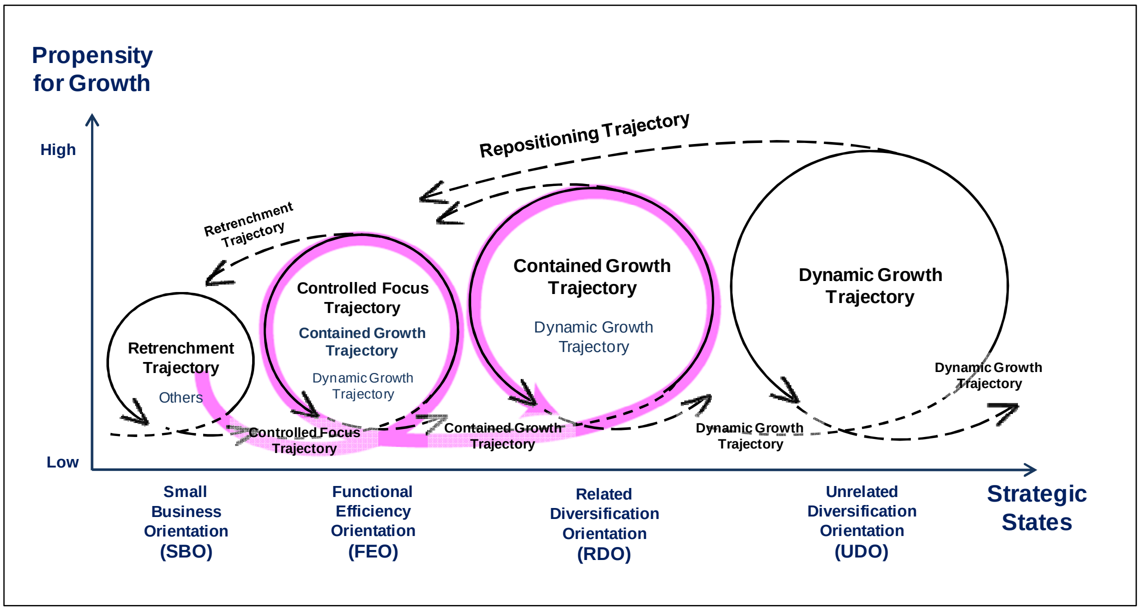
A number of reasons for this decline:
- Firm used to sell to wholesalers, who are now importing and competing with the firm.
- Cost of imports is cheaper than the local product.
- Market dictates the selling price, so the firm can only survive on the profits made through hand made candles of large size.
- Firm is no longer trying to be innovative in its approach (used to export wax filler), and the owner is taking a conservative approach towards the firm.
- Owner is a pensioner, and feels that he has nothing left in him to proactively direct the company. No time for him to sew the seeds of innovation and nurture them into growth.
- Firm cannot compete even in high quantity export, due to the high local labour and shipping costs.

1 member in dominant coalition

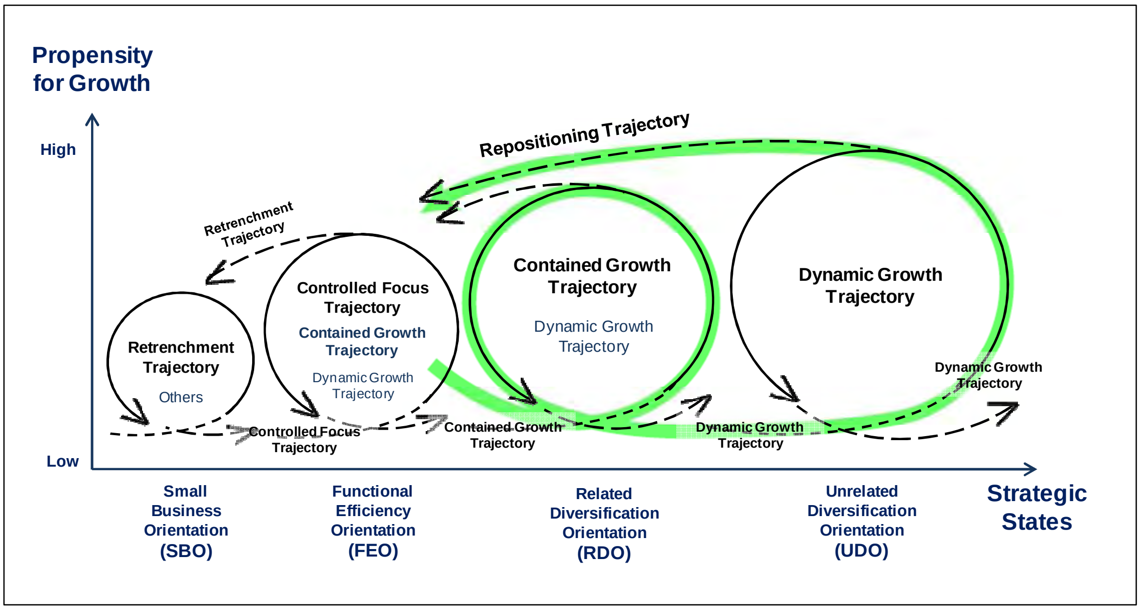
Appendix 10: The Five Strategic Pathways for Small Businesses



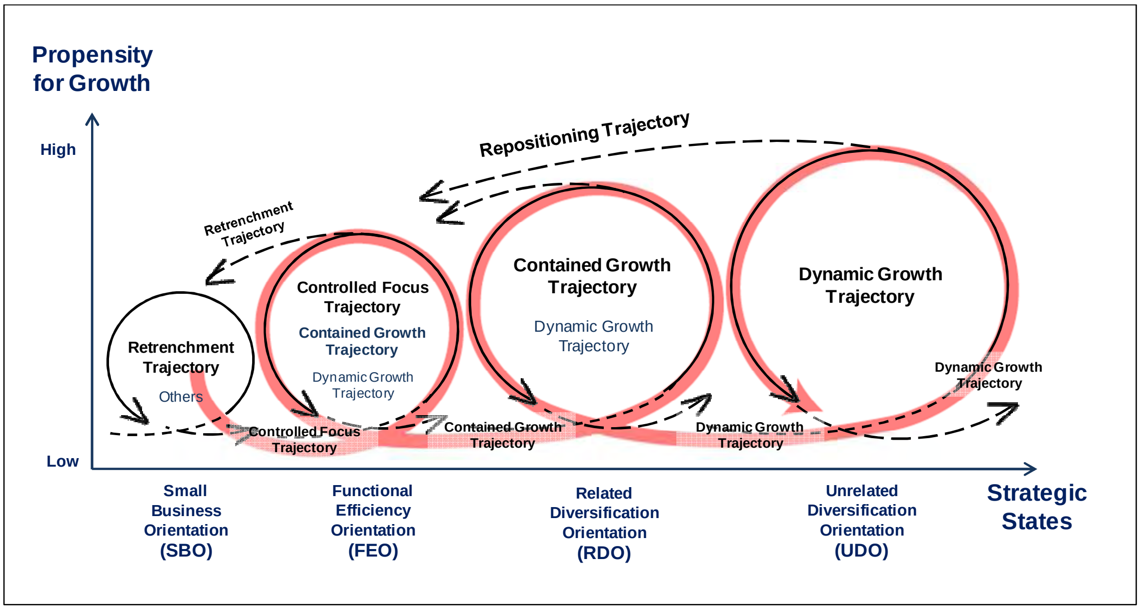
The *Controlled Focus* Trajectory



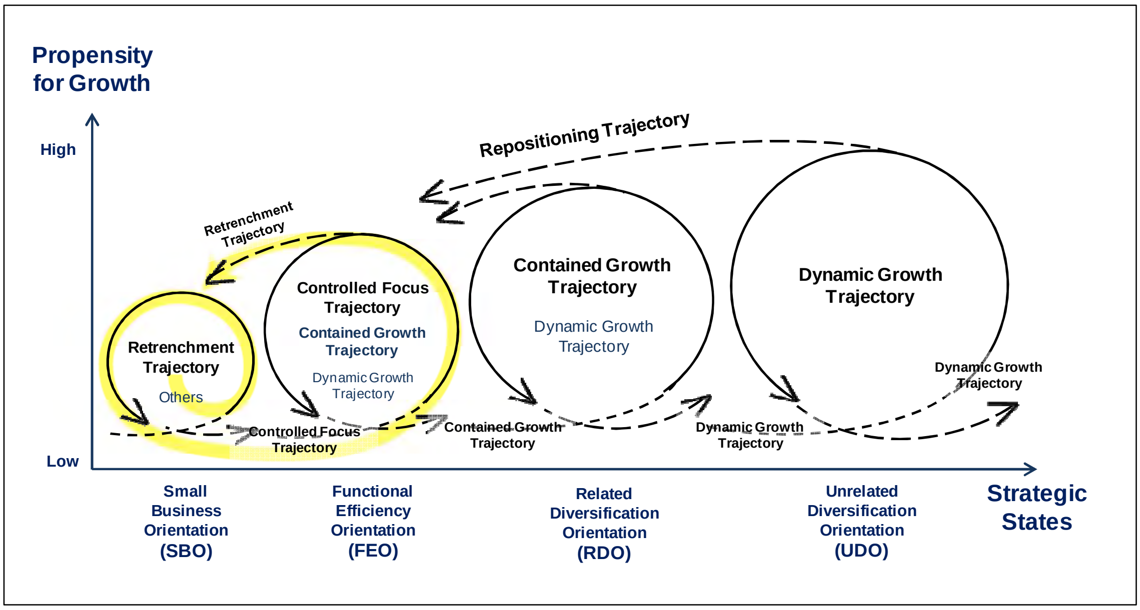
The *Contained Growth* Trajectory



The *Repositioning* Trajectory



The *Dynamic Growth* Trajectory



The *Retrenchment* Trajectory

Appendix 11: Prior Research and Publications (Two Abstracts)

An Analysis of the Predominant Dimensions of Strategic Behaviour for Small Firms in Malta

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Abstract
Objectives: Malta is classified as a country that is making a transition from an investment-driven economy to an innovation-driven economy, ranking 39th out of 125 countries measured in the year 2006 Global Competitiveness Index. A key player in the Maltese economy is the small firm, consisting of below 50 full-time employees and providing for over 60% of private sector employment. The current paper investigates the various dimensions of strategic behaviour for small firms in Malta, and focuses upon the key dimensions that appear to be providing for competitive advantage.

Prior work: The paper is based upon configurational theory and the concept of strategic fit. Various authors contend that firms will only perform well if there exists a correct configuration of a number of factors of strategic behaviour, and if these factors are in tune with the relevant environment. These concepts of strategic fit, of the adaptive cycle, and of equifinality have been shown to apply also for small firms.

Approach: The paper is empirical and qualitative in nature. Small firms were identified within the three predominant industries in Malta; manufacturing, services and retail. Expert interviews were carried out. Firms were chosen according to their relevance to the study, as well as their capability to provide information that was rich in content.

Results: The organizations studied were all firms that had survived Malta's entry into the European Union in 2004. In all, ten dimensions of strategic behaviour were identified, generally falling into the three main categories of the adaptive cycle. Of these ten dimensions, three appeared to bear more weight on the small firms in question. Consistent with the concept of equifinality, there appeared to be a number of strategic configurations that allowed for effective performance.

Implications: The findings suggest the need for a larger study on the patterns of strategic behaviour. Particularly, the study hints that a strong entrepreneurial orientation, when referring to new products and markets, is not an imperative quality for small firms, and its contribution towards performance depends on the prevalence of other strategic factors.

Value: The study moves away from the more common coarse-grained methodologies for research on strategic behaviour, that are rich in prediction and generalizability but poor in description. Also, the study questions popular universalist theories that assume that certain characteristics of small firm behaviour are automatically advantageous.

Keywords: Strategic Behaviour. Equifinality. Fit.
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A CONCEPTUAL MODEL FOR THE STRATEGIC ORIENTATION OF SMALL FIRMS

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The study of patterns of small firm strategic behavior, or strategic orientation, is gradually gaining prominence in the literature. Strategic behavior is a consequence of various antecedents, such as the prevalent management philosophy and environmental dynamism. It, in turn, determines the particular engineering stance adopted, structures and processes deployed, and ultimately, organizational performance.

The purpose of this paper is to critique, enhance and extend a model proposed by Aloulou and Fayolle (2005) that is focused particularly on the entrepreneurial orientation of small firms. A model is proposed for small firm strategic orientation that is based on a configurational approach, and applies the concepts of the adaptive cycle and the firm's lifecycle. The rationale for, and the various dimensions of the proposed model are described, and recommendations made for future research on small firm strategic behavior.

Keywords: Strategic orientation; strategic behaviour; entrepreneurial orientation; small firms.

Appendix 12: Turnitin Certificate