

# **SMALL BUSINESS GROWTH AND NON-GROWTH**

## **OVER THE LONG-TERM**

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## **ABSTRACT**

This study investigates the growth and non-growth of small-and-medium-sized enterprises (SMEs) over the long-term. A multiple case study methodology was used to examine the growth paths of eight SMEs over a period of fourteen years. Four firms represented manufacturing and four, the professional and business services industry. The firms were paired according to similar sectors and contrasting growth paths. Longitudinal employment data illustrated the firms' growth paths, and the primary method of data collection was semi-structured interviews of the firms' owner-managers. The research incorporated extensive literature, including traditional research approaches and life cycle models and emergent literature on organisational learning and growth paths.

The growth and non-growth firms were found to be distinct from each other, regardless of industry. The growth firms' owner-managers had strong growth ambitions and actively sought the recognition and challenges that arise from the operation of multiple growth businesses. The non-growth owner-managers had passive growth ambitions and focused on maintaining their accustomed lifestyle. These differences were also illustrated in the firms' approaches to networking, internationalisation and technological advancement. The growth firm owner-managers were all portfolio entrepreneurs and had strong professional networks, which they considered were strategically vital. In contrast, the non-growth owner-managers were novice entrepreneurs and were nonchalant towards networking. Innovation and flexibility were identified as important characteristics in the long-term performance of the firms. Findings also indicated that owner-managers' perceptions of their external business environment determined the influence it had on the business. Individual and collective learning processes underpin these findings in determining long-term growth performance of the firms. The strong interrelationships between owner-managers, learning processes, and longitudinal growth paths suggest areas of future research.

# **1. CHAPTER ONE: INTRODUCTION**

## **1.1 Research Objectives**

This research endeavours to advance understanding on the nature of small business growth over time. It seeks to identify the differences between growth and non-growth firms over the long-term; that is, those factors present in growth firms that are weaker or absent in non-growth firms. Furthermore, this research aims to enhance the relatively new areas of literature regarding organisational learning and growth paths. To accomplish this, a multiple case study methodology has been used and the growth paths of the businesses are illustrated using employment data compiled from *The New Zealand Who's Who* directory.

## **1.2 Research Background**

There is world wide recognition of the important contribution that small-and-medium-sized enterprises (SMEs) make towards economic prosperity. SMEs “are well recognized and acknowledged worldwide as vital and significant contributors to economic development, job creation, and the general health and welfare of economies, both nationally and internationally” (Morrison, Breen, & Ali, 2003, p. 417). In New Zealand, SMEs make up 98.8% of all business (*Businesses*, n.d.), making them an important force in the economy. However, relevant theories on the growth of SMEs remain fragmented and underdeveloped, and relatively little of the research has been based in New Zealand.

The academic literature regarding SME growth is extensive and goes back many decades. It encompasses a range of perspectives including those concerning business owner traits, firm strategies and characteristics, and life cycle or stages approaches. More recently, the focus has shifted to include dynamic process-based theories and organisational learning literature. The research increasingly recognises firm growth as a dynamic and idiosyncratic process, which

necessitates in-depth qualitative research methodology for further understanding (Gibb, 2000; Vinnell & Hamilton, 1999); nevertheless, research of this nature is relatively sparse.

### **1.3 Key Definitions**

Before proceeding, it is important to define what is meant in this research by the commonly used phases ‘SME’, ‘growth’ and ‘growth paths’. There is currently no single, uniformly acceptable definition of a SME: definitions tend to vary in regards to the criteria used and the standards set. While there are a number of possible criteria, employee numbers or annual turnover rates appear to be the most common (OECD, 2008). Employment is the relevant criteria for this research; however, the standards set vary considerably within and across countries. For example, in Europe, a SME is defined as employing less than 250 employees; in America and Canada, it is less than 500 employees; and in Australia, it is 200 employees and below (OECD, 2008). This lack of consistency makes comparative research difficult. For this research, the Organisation for Economic Co-operation and Development’s (OECD) definition of a SME will be utilised. The OECD defines a small business as less than 50 employees and a medium-sized business as employing less than 250 people. However, as this research is studying growth, firms may be reclassified according to size over the period being studied. Thus, a SME is considered to be a business employing less than 250 people. This is arguably the most frequently employed standard around the world.

It is also important at this stage to define growth and growth paths, two frequently employed terms. Firm growth “is inherently a dynamic measure of change over time” (Weinzimmer, Nystrom, & Freeman, 1998, p. 235). It is also, as considered by Penrose (1968), “the process of exploiting profitable opportunities” (Thompson & Wright, 2005, p. 60). The term ‘growth path’ generally refers to a firm’s development over an extended period of time; in this research, it is

illustrated by the composition of fourteen years of annual employment measurements. Regarding the nature of growth paths, Garnsey, Stam and Heffernan (2006) pointed out:

Slope and change in slope are the elemental components of a firm's growth path. It is axiomatic that at any point in time, metrics of firm size change will show the firm undergoing growth, stability or decline. Fluctuations may occur at any time and on any scale. (p. 11)

#### **1.4 Thesis Outline**

The next chapter presents the literature informing this research: a range of academic theories and frameworks concerning small firm growth. The methodology utilised is then described in Chapter Three. The fourth chapter briefly introduces the firms involved in this research and their respective growth paths. Chapter Five then presents the various findings of the research. These findings are then discussed in more depth and analysed in relation to the literature in Chapter Six. Chapter Seven concludes the thesis by providing an overview of the research findings, its limitations, and recommendations for future research.

## **2. CHAPTER TWO: LITERATURE REVIEW**

The literature review was an ongoing part of this study, due in part to the large and diverse areas of literature concerned with the growth of SMEs and related factors. Theory development is a crucial part of any research and is arguably especially important when doing case study research (Yin, 2003). This is because “[t]he use of theory, in doing case studies, is not only an immense aid in defining the appropriate research design and data collection but also becomes the main vehicle for generalizing the results of the case study” (Yin, 2003, p. 33). Therefore, this chapter investigates a range of literature concerning SMEs and their growth or development. It is important to note that small businesses are qualitatively and quantitatively different from large firms; subsequently, researchers have recognised that theories regarding large firms cannot be superimposed onto small firms (Wyer & Johl, 1997). In this chapter, the terms ‘SMEs’ and ‘small businesses’ will be used interchangeably. This is in keeping with the literature that tends to simplify the SME distinctions down to just ‘large’ and ‘small’ firms.

Research on small business growth and development generally concentrates on one of four perspectives: the characteristics of the entrepreneur; the characteristics of the business and its development sequence; business management strategies; and the external environment influences. Within these perspectives, four broad areas of research were deemed crucial to the research and are examined in detail in this chapter. The first substantial body of literature to be investigated distinguishes specific factors that are purported to influence small firm growth, such as the profiles of the people operating high growth businesses and the characteristics of the businesses themselves. The second area investigates the life cycle or stages perspective of small business development. These first two areas of literature provide the historical foundation for the study of firm growth. The third area covered in this literature review is a relatively new body of literature that examines firm growth as a process or a path. This small but expanding body of literature represents the way in which many researchers perceive firm growth and believe more

research in this area needs to be done, as understanding remains limited. Finally, another relatively new area of literature is investigated that explores the potential relationship between learning and small business growth and performance. Over the past decade, there has been a significant growth in understanding the importance of an organisation's learning capability. These four areas of literature are interrelated and overlap and, while many theories have been presented, little integration currently exists in the literature. From the examination of these core areas of research, multiple frameworks of interest were recognised and subsequently used to inform the ensuing stages of this research.

## **2.1 Key Factors Influencing Growth**

There is a large and diverse body of research on the growth of small business. This literature goes back many decades and spans a multitude of disciplines. Over the years, a substantial amount of research has been produced on the traits and behaviours of the entrepreneurs, the attributes of firms, and the strategies exploited by them. This literature has largely focused on these factors in high growth or 'successful' firms, hence the need for further research on growth and non-growth firms to confirm that purported growth factors or attributes are present in growers *and* absent in non-growers. Many researchers now consider this ideological perspective to be insufficient for accurately representing or characterising the growth of small firms. Nevertheless, it is important to explore this literature to provide some understanding of the factors that are potentially affecting SME growth, and to understand the foundation upon which the more recent literature was built.

Storey (1994) synthesised a good deal of research on small businesses. He categorised many of the commonly researched growth factors into three main groups: the *entrepreneur*, *firm*, and *strategy* components (see Table 1). For a firm to achieve rapid growth, all of the components within the three groups need to be in appropriate alignment (Cooney & Malien, 2004). While

little consensus exists on the exact nature of the effect these elements have on growth, Table 1 below provides a useful framework for investigating potential influencing factors that may be positively or negatively affecting SMEs.

*Table 1. Factors Influencing Growth in Small Firms (Storey, 1994, p. 123)*

The Entrepreneur	The Firm	Strategy
Motivation	Age	Workforce Training
Unemployment	Sector	Management Training
Education	Legal form	External equity
Management experience	Location	Technology
Number of founders	Size	Market positioning
Prior self-employment	Ownership	Market adjustments
Family history		Planning
Social marginality		New products
Functional skills		Management recruitment
Training		State support
Age		Customer concentration
Prior business failure		Competition
Prior sector experience		Information and advice
Prior firm size experience		Exporting
Gender		

### ***The Entrepreneur or Owner-Manager***

A distinguishing characteristic of small businesses is that ownership and management are typically combined (North, Smallbone, & Vickers, 2001), and subsequently the owner-manager of a small business has a strong influence on the functioning of the firm (Chaganti, Cook, &

Smeltz, 2002). Moreover, Fuller-Love (2006) explained that small business owners often view the business as an extension of their own self-image and ego. This makes the traits and behaviours of the SME owner-manager highly relevant to the growth path of the firm.

It is first important to note that some of this literature is more specifically focused on the entrepreneur or entrepreneurship in small businesses. As the literature on entrepreneurship and small businesses is blurred together, both need to be examined. Currently, no uniformly accepted definition of an entrepreneur or entrepreneurship exists. Westhead, Ucbasaran and Wright (2005) provide a description of entrepreneurship that will be adopted by this research, which involves not only the establishment of new businesses, but also the purchasing of existing businesses and inheriting independent businesses. There are three distinct types of entrepreneurs recognised by the literature: novice, serial, and portfolio entrepreneurs (Matlay, 2005; Ucbasaran, Westhead, & Wright, 2006). Novice entrepreneurs have no prior business ownership experience, whereas both serial and portfolio entrepreneurs are habitual entrepreneurs. Serial entrepreneurs have owned multiple businesses sequentially. Portfolio entrepreneurs have equity stakes in multiple businesses concurrently. These different types of business owners possible in SMEs are important to recognise and study as they potentially have different characteristics, behaviour, needs and performance outcomes (Ucbasaran et al., 2006). As this research is not solely focused on entrepreneurship, the general term to be used to describe a SME's key individual throughout this thesis will be "owner-manager", unless otherwise appropriate.

An attribute that has been of particular interest is the *motivations* and *aspirations* of the small business owner-manager. Cooney and Malinen (2004) stated that undoubtedly the "mindset of the entrepreneur is a major influencing factor in targeting and achieving growth" (p. 8). Wiklund and Shephard (2003) also found that the actual growth achieved by small businesses was positively related to the owner-managers' aspirations to expand the business. Two classifications of owners' motivations were observed in Dalley and Hamilton's (2000) study of eight SMEs in

New Zealand: the “professionals” and the “lifestylers”. The former category were generally older and larger, and were found to be more focused on career advancement, operating a well-run business, and acknowledgment as owners of financially successful businesses. The “lifestylers” were not motivated by wealth, but by independence, personal growth, fun, and by avoiding failure. They were also the youngest and smallest businesses in the sample. Fuller-Love (2006) also pointed out that many entrepreneurs are motivated by lifestyle and independence, and not by achieving growth. In addition, McMahon (2001) recognised a similar configuration to Dalley and Hamilton (2000), and labelled them ‘life style SMEs’ and ‘entrepreneurial SMEs’. However, they also had a third category in between these two, called the ‘capped growth SMEs’. These capped growth SMEs followed moderate growth paths, and had modest growth aspirations that often resulted in the owners capping growth to retain the firm’s financial independence.

Moreover, owner-manager’s motivations and aspirations can also act as a significant and deliberate barrier to growth. Wiklund, Davidsson and Delmar (2003) utilised an expectancy-value approach to examine the attitudes of small business managers towards growth and reported that, clearly, “many small business managers deliberately refrain from exploiting opportunities to expand their firms” (p. 247). The most important determinant of attitudes towards growth was non-economic considerations, such as the impact they believed growth would have on employees.

The next related component is *unemployment*. Many researchers have examined the motivations behind starting up businesses and the subsequent impact these motivations have on a business’s propensity to grow. These motivations are now commonly divided into two categories: ‘push factors’ and ‘pull factors’. Push factors refer to a person starting up their own business out of necessity, commonly due to unemployment or job dissatisfaction (Hessels, Gelderen, & Thurik, 2008). Pull factors, on the other hand, relate to the recognition of and response to an opportunity. This includes not just the recognition of opportunities in the market for a new product or service,

but also of opportunities to acquire autonomy, wealth, challenge and status. Pull factors have been reported to be associated with a higher propensity to grow (Dobbs & Hamilton, 2007; Hessel et al., 2008). However, while the motivations behind starting up and operating a small business are crucial to the propensity of a business to grow, they alone are not sufficient for actual growth to occur.

Many researchers believe that the more *prior experience* and *education* a firm's owner-manager has, the more likely it is growth will be achieved. Experience thought to be particularly valuable includes experience in a large firm, at a managerial level, in a sector relevant to an owner's current organisation, and prior experience being self-employed (Deakins & Freel, 1998; Lee & Tsang, 2001; Macpherson & Holt, 2007; Rae, 2004). Prior experience with business failure is also considered by some researchers to have a positive relationship with small business growth. A business owner's prior experience is thought to positively influence growth due to the increased knowledge acquired by the entrepreneur and their enhanced ability to utilise that knowledge (Penrose, 1968). More specifically, Macpherson and Holt (2007) stated that previous "functional, technical and managerial experience provides critical knowledge resources, including marketing, human resource management, communication, managing change and finance" (p. 178). However, Hamilton & Lawrence (2001) found prior business experience to have no significant effect on the size of the firm and Frankish, Roberts and Storey (2007) also found no evidence of a significant positive effect of prior business experience on business survival. They believed prior business experience to be of no use because "no two business situations are identical" (p. 5). Moreover, Gartner, Starr and Bhat (1999) even found that "prior industry experience may often be a liability rather than a benefit. ... biases and blinders, strong ties, the 'success syndrome,' and the liabilities of staleness, sameness, priciness, and costliness that make it difficult to navigate the uncharted waters of a new venture start-up" (p. 224). Finally, Wiklund and Shephard (2003) found that neither education nor experience had a main

effect relationship with small business growth. However, they did find that growth “increases with aspiration but at a faster rate for those with higher levels of education” (p. 1933).

Experience and education are considered crucial aspects of the *human capital* (Wiklund & Shephard, 2003). Human capital “moves beyond personality characteristics (such as traits) and allows for the incorporation of cognition” (Ucbasaran et al., 2006, p. 16) that can change over time: “A considerable amount of research suggests that the human capital of the entrepreneur is central to the development and survival of his or her venture” (Ucbasaran et al., 2006, p. 17). This is in keeping with the resource-based view (RBV) of the firm and the entrepreneur (Pettus, 2001).

Studies have suggested that *family history*, *age* and *gender* are also important factors. It is often hypothesised that individuals whose parents were self-employed will have greater success as an entrepreneur and business owner themselves (Storey, 1994). This is purported to be so because such an individual is believed to have greater access to managerial resources, finances, and extended business networks as a result. However, empirical evidence to support this hypothesis is lacking (Storey, 1994). The individual’s *age* has also been hypothesised as an influencing variable, but the direction of this influence is inconsistent. That is, younger entrepreneurs have been said to have the energy and drive necessary for the hard work required in establishing a business; however, they are also said to lack the networks, reputation and experience necessary to successfully grow a business. The reverse is argued for older entrepreneurs. While evidence is mixed and at times weak, Storey (1994) suggests that overall there is some evidence to support that younger entrepreneurs are more likely to operate growth businesses. Further, studies have generally found the effect of *gender* on growth expectations and performance to be not significant (Gartner & Bhat, 2000).

The *number of founders* a firm has is also generally believed to be positively related to firm growth (Cooney & Malien, 2004). Many researchers have found that firms established with larger management teams outperformed those established by sole entrepreneurs (Storey, 1994). This is believed to be because of the additional knowledge, experience, capital, and opportunities for feedback generated by having extra members in the founding team (Littunen & Tohmo, 2003). It can also be argued that it is having more owners leads to a higher breakeven point, hence faster growth is required to get to that point. However, contrary to the bulk of the literature, Hamilton and Lawrence (2001) found there to be a negative relationship between the number of founding members and the firm's growth rate in their study of New Zealand SMEs.

A factor not covered by Storey's (1994) framework that is frequently discussed in the literature as influencing firm growth is the behaviour of the owner-managers of SMEs. The three common classifications of behaviour discussed are: *entrepreneurial behaviour*, *managerial behaviour*, and *functional behaviour*. Entrepreneurial behaviours "promote a culture of creativity and risk taking, create flat informal structures, and formulate strategy in order to take advantage of identified opportunities", whereas non-entrepreneurial or managerial behaviours emphasise "planning, control, monitoring, evaluate, and formalized organizational structures" (Sadler-Smith, Hampson, Chaston, & Badger, 2003, p. 50). Functional skills are related to the business owner's background experience. Rather unsurprisingly, given the these definitions, Moreno and Casillas (2008) found high growth to be positively associated with a firm's level of entrepreneurial behaviour: "growth tends to be considered a logical consequence of innovative, proactive and risk-taking behaviour on the part of the firm" (p. 57). Sadler-Smith et al.(2003) made the important point, however, that despite these behavioural distinctions in the literature, small firms are likely to be "populated by people who perform entrepreneurial, managerial, and operational functions" (p. 54) and that successful growth may in fact be dependent on this ability to actively engage in *all* of these behaviours. Moreover, Gibb and Davies (1990) reported that it "has been argued elsewhere that different types of entrepreneurial behaviour are required in

different marketplaces to achieve growth and different traits, skills and competencies will be needed depending upon levels of uncertainty and complexity in the markets” (p. 20). They also criticised the literature about entrepreneurial behaviours and traits for ignoring “the capacity of people to learn and change over time” (Gibb & Davies, 1990, p. 20) and pointed out that it is “fruitless unless a contingency approach is taken” (Gibb & Davies, 1990, p. 20). Therefore, this tautology would appear to be largely redundant and of little value to understanding the performance of SMEs and their owners.

### ***The Firm***

The following are the firm components reported in Table 1: age, size, sector, legal form, ownership, and location. These factors have also been the focus of much research with again conflicting reports. These components are also often treated as control variables.

Overall, the research has found *younger* and *smaller* firms achieve higher growth rates, whereas *older* and *larger* firms have been found to achieve relatively lower growth. This is almost always the case with proportional or percentage growth rates that favour small firms, whereas absolute growth rates favour larger firms. Penrose (1968) pointed out that new firms usually have to grow initially to build the necessary resource base for survival. Therefore, the general pattern “is clearly that young firms are more likely to achieve significant growth than older firms; this reflects the need for a new business to grow quickly to achieve minimum efficient scale (MES)” (Storey, 1994, p. 139). Older and larger firms are thought to have lower growth rates due to having less motivation and/or ability for growth. Moreover, organic growth is frequently associated with younger and smaller firms, whereas older firms are often related with inorganic growth, for example, mergers and acquisitions (Davidsson, Delmar, & Wiklund, 2006), which can be related to their need to diversify.

The sector, location, legal form, and ownership structure of the business are factors that the entrepreneur tends to choose and control (Storey, 1994). Different *sectors* have been found to have different rates of growth; however, this is only descriptive and not predictive. Sector compositions used by researchers also differ, making comparisons difficult. Smallbone, Leigh and North (1995) found that size, age and sector are not determinants of performance. There have also been studies investigating the effect of legal form and location on firm growth. Generally, limited liability companies have been found to achieve more rapid growth (Deakins & Freel, 2006). Gartner and Bhat (2000) found that a firm's legal structure was correlated with growth expectations. No significant differences in expectations were found between partnerships and corporations, but both legal structures were found to be significantly more opportunistic than sole proprietorships. Gartner and Bhat (2000) also found a firm's location to have a significant effect. Crime, neighbourhood appearance and transportation accessibility were found to be correlated to the expectations of growth held by small business owners. However, they only explained very small percentages of the variance, typically around one percent. Some other commonly examined effects of a business' location include traffic, pollution, climate, competitive environment, education institutes, and public services. When studying the effects of such variables on expectations the definition of the 'location' becomes very important. For example, if investigating the impact of crime rates, the 'location' could be defined as the inner city, the broader region, the suburb or the street. Upon which of these are the owner's expectations formed? However, Deakins and Freel (2006) pointed out that the research has failed to reach consensus on the effect of location on growth and concludes that:

Location itself does not directly influence growth; rather a number of inconsistently related variables, such as physical and support infrastructure, resources munificence and availability of skilled labour, are the 'true' factors for which location acts as a fallible proxy variable. (p. 170)

In this research, any possible effects of location, direct or indirect, are controlled, as all of the firms are from the same or similar locations.

With regards to the *organisational structures* of SMEs, Hamilton and Lawrence (2001) distinguished three common types of firm structures: owner-operator, owner-manager, and owner-director. The owner-operator spends most of their time producing products or providing services and minimal time managing the business. Under the owner-manager structure, less time is spent producing and more time managing all the major functions of business, such as production, finance and sales. Finally, the owner-directors spent most of their time in discussions with the business managers in charge of those major business functions. Among other factors, Hamilton and Lawrence (2001) then analysed the relationship between these three structures and firm size. They found that, as firms get larger, they tended to move respectively through these three structures.

Finally, *family businesses* are a unique type of small business. Differences have been purported between family owned-and-managed businesses and sole founder owned-and managed-businesses. Miller, Breton-Miller, and Scholnick (2008) reported that family owned-and-managed businesses made more future-oriented investments in reputation development, market share development, connecting with customers largely through networking, and targeted marketing approaches, than did the non-family businesses. They also did not find support for the stagnation perspective of family owned-and-operated businesses that considers these businesses to be lacking in resources, slow-growing, conservative and short-lived. The literature puts forth the following problems as found in family businesses: reduced formal safeguards, adverse employee selection, longer lasting conflicts, ‘hold-up’ in conflicts, high managerial entrenchment, prefer lower risk, altruism towards family, and non-economic preferences (Smith, 2008). Edwards and Ram (2006) also pointed out that “[s]econd-generation involvement in family businesses can often be fraught and problematic” (p. 898). Nevertheless, Smith (2008)

found no significant differences between family and non-family firms, and concluded from the research that the “absence of growth differences between family and non-family firms therefore appears to be widespread across industries and across the globe” (Smith, 2008, p. 51).

### ***Strategy***

In Table 1, Storey (1994) listed 14 components under the strategy classification as impacting on firm growth. Similar to the issues discussed above, these strategy components have contrasting definitions, recommendations and findings; therefore, the primary consensus and issues in the literature will be briefly presented here. However, *Workforce and Management training* are largely beyond the scope of this research and “studies do not demonstrate that formal assistance mechanisms of counselling, training, etc. have a fundamental impact on firm growth” (Gibb & Davies, 1990, p. 25). Wyer and Johl (1997) also suggested that, in small businesses, episodic training inputs are of limited value.

While many issues surrounding the *financing* of SME growth have been studied, the main point to note from the literature is that financing is the most commonly cited and debated barrier of growth (Deakins & Freel, 2006). Wiklund and Shephard (2003) found that “access to financial capital had a direct effect on growth”, not an interaction effect as hypothesised, suggesting “that small businesses with access to more financial capital grow more, aspirations aside” (p. 1934). Vinnell and Hamilton (1999) also found the availability of capital to be a key determinant of growth. Many authors believe that financing can therefore both restrict and promote growth in SMEs. However, it is also argued that this issue is more related to the *ability* of the entrepreneur of raise finances (Penrose, 1968).

Arguably of critical importance are the actual strategies found to be enacted by SMEs and the purported influence of these strategies on the growth and success of SMEs. This involves

examining the characterisations and categorisations of SME strategies, as well the components identified by Storey (1994) of *market positioning*, *planning*, approaches to *exporting*, and utilisation of *technology*. Two of most commonly cited characteristics of small business strategy are ‘flexibility’ and ‘informality’, which are argued to be effective in any context (Edwards & Ram, 2006). Studies have also found a strong relationship between strategic planning and growth. The literature states that SMEs are dominated by informal strategies and strategic planning processes, and generally believes that the more strategic planning is enacted, the better their performance will be (Verreyne, 2006). An example of a strategy-making taxonomy for small firms is provided by Verreyne (2006), which consists of simplistic, adaptive, participative, and intrapreneurial modes of strategy making. The simplistic mode refers to strategy making that is driven by the entrepreneur and previous strategies. Adaptive refers to changes in strategy being made in response to stakeholder demands. Participative modes is where an “idyllic picture of ...cooperation, teamwork and value drive the strategy-making process” (p.219). Finally, the intrapreneurial mode is an experimental and innovative process with involvement from internal and external stakeholders.

The literature traditionally argues that small firms will perform better by competing in niche markets with high quality products or services. They have been encouraged to differentiate themselves and not to compete solely on price, as large firms tend to be lower cost producers. *Market positioning* in niches is thought to provide more sustainable markets for small firms, partially because they are often too small to warrant the interest of large firms and can often only be properly serviced or tailored for by small firms who are more flexible. Littunen and Tohmo (2003) found that “growth could not be explained by any single type of strategy. The most successful firms were characterised by an ability to make changes in their production process to complement an active market development strategy” (p.197). Central to growing firms is the ability to adjust to changes in the external environment, *market adjustments*, such as changes in consumer demands, technology and regulations (Storey, 1994). Generally, “the basic strategy

used by high growth firms was to build on an established product base and market position by identifying new markets for existing (or slightly modified) products, or by developing new products or services for existing customers” (Smallbone et al., 1995, n.p.).

Furthermore, some authors suggest that the *strategic awareness* of the business owner is a key strategy component to the performance and growth of SMEs. Gibb and Scott (1985) argued that in “the absence of formalized strategic planning... the concept of strategic awareness becomes of critical importance in the successful management of the development process” (p. 615). Strategic awareness refers to the “ability to make an assessment of the *total* impact of any particular change. This means not only awareness of the immediate impact of any new development but also reflection on the longer term repercussions” (Gibb & Scott, 1985, p. 619).

Additionally, high *technology* firms have often been found to outperform low technology firms (Storey, 1994). It may “be the case that more technologically sophisticated businesses, even in conventional sectors, are likely to grow more rapidly than those with lower levels of technical sophistication” (Storey, 1994, p. 146). Technologic sophistication is a broad area of literature with differing definition, which is interrelated with the concept of innovation in SMEs that has been found to positively influence growth. North, Smallbone and Vickers (2001) described innovation in the SME context as including:

the development and/or adoption of new products and processes, incremental improvements to products and processes, and new approaches to marketing and/or new forms of distribution. An emphasis on the diffusion and adoption of new knowledge and technology and the role of more incremental innovations in supporting competitiveness

(p. 303)

The factor of introducing *new products* can therefore be seen as an indicator of the innovativeness of a firm.

Another strategy component is the willingness and ability of SMEs to engage in *exporting* and *internationalise operations*. Historically, only a small percentage of SMEs have been involved in exporting. However, to achieve high growth, exporting and internationalisation are increasingly important (Deakins & Freel, 2006), particularly in a small and isolated economy such as in New Zealand (Chetty & Campbell-Hunt, 2003). There is a great deal of research in this area examining various aspects such as networking effects, stages of internationalisation, cultural barriers, and governmental support (Chetty & Campbell-Hunt, 2003; Deakins & Freel, 2006).

Finally, *customer concentration* is also a factor influencing growth. Small businesses are known to often be reliant on a small number of key customers (O'Gorman, 2001). This is risky as it means that they are dependent on the continued existence and performance of those few key customers.

The nature of an SME's *competition* also impacts on opportunities for growth and the capabilities needed to compete. Markets are commonly characterised as either hostile or benign. Covin and Slevin (1989) describe hostile environments as "characterized by precarious industry settings, intense competition, harsh, overwhelming business climates, and the relative lack of exploitable opportunities" (p. 75), and non-hostile or benign environments providing "a safe setting for business operations due to their overall level of munificence and richness in investment and marketing opportunities" (p. 75). They found environmental hostility to have a strong negative effect on firm performance.

## ***Summary***

The components presented by Storey (1994) illustrate the wide range of factors that are potentially impacting on SME growth or decline. Many of the factors presented in Table 1 have a great depth of singularly focused research behind them and cross into other disciplinary areas. This is why the overall consensus and the main reasoning or issues of each of the key factors was briefly presented in this literature review. From these general consensuses, hypotheses are regularly drawn and tested through empirical and cross-sectional methods that are commonly focused on ‘growth stars’. Such methods fail to recognise the dynamic nature of SME growth. These factors create a profile of a high growth firm that is young, high tech, located in a high growth industry, and is enacting an innovative, flexible, niche strategy. It would be founded and operated by someone who is experienced in the industry, has founded businesses before, currently active multiple ventures (portfolio entrepreneur), has operated large businesses before, experienced failure, and also is young and of either gender.

Summarising the key strategy components, North et al. (2001) wrote:

SMEs have less ability than larger companies to shape and influence their external environment, e.g. in their relationships with customers, suppliers, sources of finance and the labour market. This means that the smaller firm is typically faced with a more uncertain external environment than a larger firm. As a consequence, competitiveness often relies on the firm’s flexibility, responsiveness to customers and adaptability to external changes ... (p. 304)

If lacking, these factors or components can also act as barriers to growth. Specific factors identified in the literature as barriers to growth include: financing, management (that is, their motivations, skills and beliefs), and the external environment (for example, government policy,

market conditions, and industry growth rates) (Cooney & Malien, 2004; Deakins & Freel, 2006; Dobbs & Hamilton, 2007; O'Gorman, 2001). Financing is most commonly cited and debated barrier to growth (Deakins & Freel, 2006). Barriers can be real or perceived, but either way “once they exist in the mind of the entrepreneur they will act as a deterrent to growth aspirations and practices” (Cooney & Malien, 2004, p. 11).

All of these factors were important to explore as they cover a considerable portion of the literature regarding SME growth. Storey's (1994) framework is also a useful analytical tool “for dissecting firms to discover relevant issues” (Cooney & Malien, 2004, p. 10). However, this ‘recipe approach’ for achieving growth is unrealistic given the extreme diversity found in SMEs and as it also “ignores the chemistry or bonding that unites these properties for success to occur” (Cooney & Malien, 2004, p. 10). Furthermore, many of the studies examined in the section have immediately distinguished between ‘growing’ and ‘declining’ firms: more often focusing solely on those deemed to be growth or high growth firms. The utilisation of this dichotomy of historic growth records fails to adequately deal with the fact of most firms do not grow continuously year-on-year and may have extended phases or episodes in a non-growth mode. The focus solely on growth firms also means that they cannot confirm the absence of the espoused growth drivers in non-growth firms.

This large body of research has continued to produce contradictory and fragmented evidence on the influence of these ‘successful growth’ factors (Dobbs & Hamilton, 2007; Hugo & Garnsey, 2005). Many researchers now believe this to be largely due to the methodologies most often employed by such studies, as this field has been largely dominated by empirical and cross-sectional research (Davidsson et al., 2006), and in some of these studies “as much as 80 per cent of sample variance is left unexplained” (Garnsey et al., 2006, p. 2). Hugo and Garnsey (2005) also suggested that it is not just methodological weaknesses that have led to the poor predictive record of these successful attributes but also the “unpredictable effects of feedback processes set

off by entrepreneurial problem solving” (p. 139). Cross sectional data is believed to conceal the variety of development/growth paths (Hamilton & Lawrence, 2001); the “cumulative processes inherent in firm growth cannot be topped by the cross-sectional methodologies dominant in the literature” (Garnsey & Heffernan, 2005, p. 677). Subsequently, growth factors approach, while it is informative, appears unsatisfactory for understanding the processes behind when and why firms grow and do not grow.

## **2.2 Lifecycle or Stages Approach**

In the literature there are numerous lifecycle or stages theories that have attempted to characterise growth into any different number of stages or steps. This literature takes an ecological view of the life of an organisation, small or large, and emphasises the sequence of development that a firm goes through in its life. While life cycle models have been made with all number of steps or stages, four general stages are common in the literature: formation, early growth, later growth, and maturity (Yusuf, 1997). These models “generally have similar structures in which the evolutionary stages begin with a struggle for existence and survival, followed by growth, then stability and institutionalisation” (Yusuf, 1997, p. 423). The stages of growth are often associated with a firm’s size, performance, characteristics of management, and the changing role of the entrepreneur/owner (Gibb & Davies, 1990). Progression from one stage to the next is often characterised by a crisis or a challenge, which may be internal or external to the firm. The organisation must overcome the challenge in order to evolve to the next stage (Scott & Bruce, 1987). For example, Yusuf (1997) argued that as firms “move through the various stages of development, they encounter different obstacles that must be addressed, requiring different management priorities, skills, and structural arrangements” (p. 424). Most of these models are “‘normative’ in nature rather than based upon substantial empirical evidence largely because of the absences of longitudinal studies” (Gibb, 2000, p. 21). Three of the most

prominent stages models are presented in this section, before the overall advantages and weaknesses of such approaches are discussed.

One of the most well-known stages model was created by Greiner (1972; 1998). This model is characterised by points of crisis in the firm's development (see Figure 1), which, if overcome, allow further growth. These points of crisis are referred to as 'revolutions' and the preceding growth occurs as 'evolutions'. Although this model is not specific to small firms, many subsequent models were based on Greiner's (1972) model. The updated model by Greiner (1998) starts with the founding of a firm based on some creative product or service. The first crisis encountered is a crisis of leadership. This occurs as the owner has to increasingly perform managerial activities and responsibilities that they do not want to do. To overcome this, the owner needs to appoint a formal manager to take care of such responsibilities, which then leads to growth through direction. After that phase of growth, the next crisis is one of autonomy. Centralised management has become cumbersome and lower level employees require greater autonomy. If this delegation or decentralisation occurs, growth will again follow. A crisis of control occurs next as the higher level managers feel that too much autonomy has been given and they seek to re-centralise management to gain back control. This results in more coordination by the top managers and more formal systems. Increased planning and control leads to more growth until the systems becomes too bureaucratic, with too much "red tape". The organisation's complexity at this point can no longer be managed by formal systems and the organisation must learn to collaborate to overcome this final crisis.

Figure 1. How Companies Grow (Greiner, 1998, p. 56)

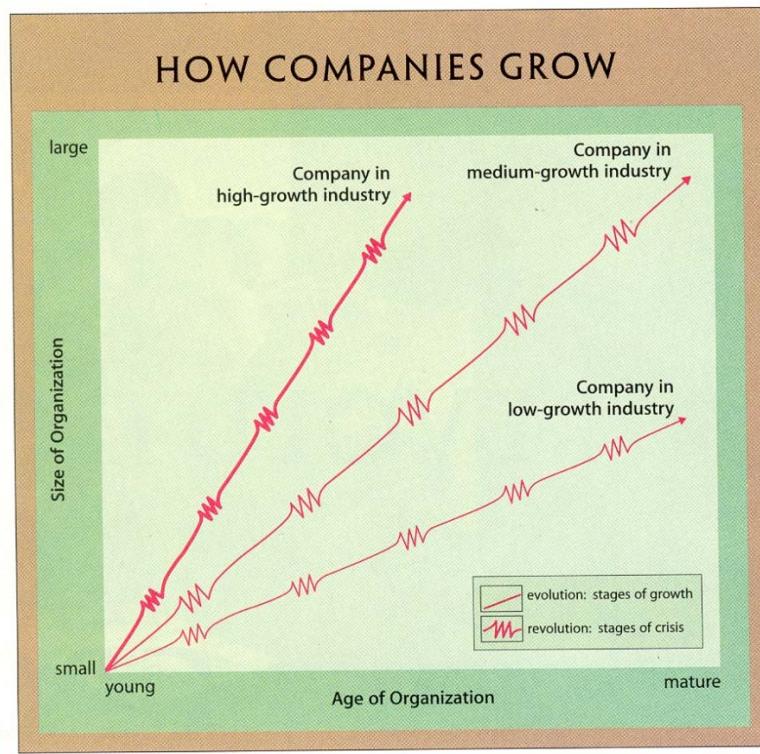
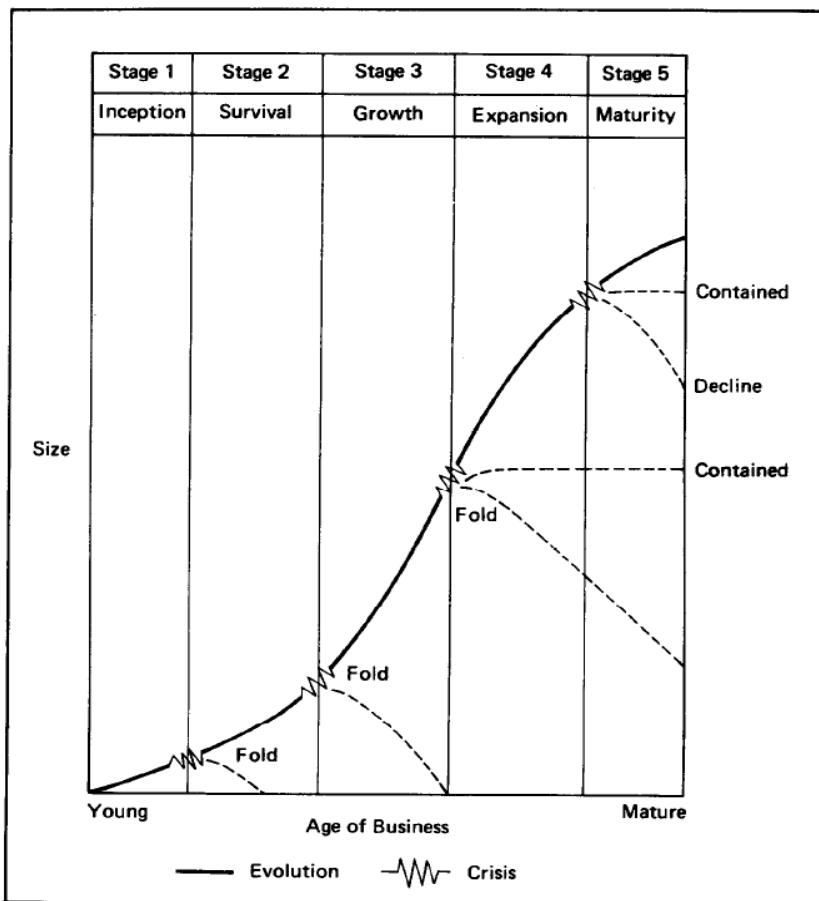


Figure 1 illustrates that the higher the rate of growth of a firm's industry the faster these phases and crises will occur. However, this model assumes long periods, usually eight years, of sustained growth, which in reality is rare for businesses to achieve. It also assumes that firms constantly want to grow, which is also often not the case in SMEs. The strict progression through the stages of growth is an overly simplistic representative of reality. Finally, as it is not specific to small firms, many of the issues presented in this model are beyond their scope.

Another five stage model, by Scott and Bruce (1987), is based on Greiner's model and is specific to small businesses. Scott and Bruce (1987) claimed that this model can be used to help managers plan for the future by explaining "the sort of thing that will precipitate crises and the major strategies that should be considered at each stage" (1987, p. 45). It is described as a diagnostic tool and is shown in Figure 1. Transition through these five stages is characterised in this model by disruptive crises that requires considerable planning and subsequent change by the

firm and its owner. Business failure is possible at any stage, but is most likely at a crisis point. The crises this model are similar to the Griener (1998) model, and again the firm's development is largely determined by its age and size.

*Figure 2 . Five Stages of Growth in Small Business (Scott & Bruce, 1987)*



Finally, a third well-known stage model is Churchill and Lewis's (1983) model, which is more dynamic and contingent than the above two. It has five stages: *existence*, *survival*, *success* (with two sub categories of *success-disengage* and *success-growth*), *take-off*, and *resource maturity*. This model was designed to anticipate common problems and resource demands of the different stages. It "is characterized by an index of size, diversity, and complexity and described by five management factors: managerial style, organizational structure, extent of formal systems, major strategic goals, and the owner's involvement in the business" (Churchill & Lewis, 1983, p. 31).

Underlying a firm's movement through this model is the owner-manager's intentions. This model is more applicable to SMEs than the previous two models.

Life cycle and stages theories have considerable intuitive appeal and provide some valuable observations of an organisation's internal dynamics. They also provide useful conceptualisations of the problems or challenges that a firm and its owner may encounter as the organisation grows, develops and ages. However, these models are now considered to be of questionable ontological status. The underlying assumptions of such models are that growth is largely a linear, sequential, and deterministic process (Phelps, Adams, & Bessant, 2007). This has been found to not accurately fit the available evidence (Deakins & Freel, 1998), and is generally perceived as problematic, overly-simplistic, and insufficient for describing the growth paths of firms (Davidsson et al., 2006; Macpherson & Holt, 2007; Phelps et al., 2007; Vinnell & Hamilton, 1999). This is because when studied over a long period of time, the growth of SMEs has been found to be much more multidimensional, erratic and idiosyncratic than this literature seems to assume (Davidsson et al., 2006; Vinnell & Hamilton, 1999). For example, firms may not enter at stage one, stages may be skipped, managerial or organisational characteristics may not match the stage, and boundaries between stages may not be as discrete as such models portray. Furthermore, these models tend to erroneously assume that all owners want to continuously grow their business and they over-estimate the ability of SMEs to sustain growth for many years.

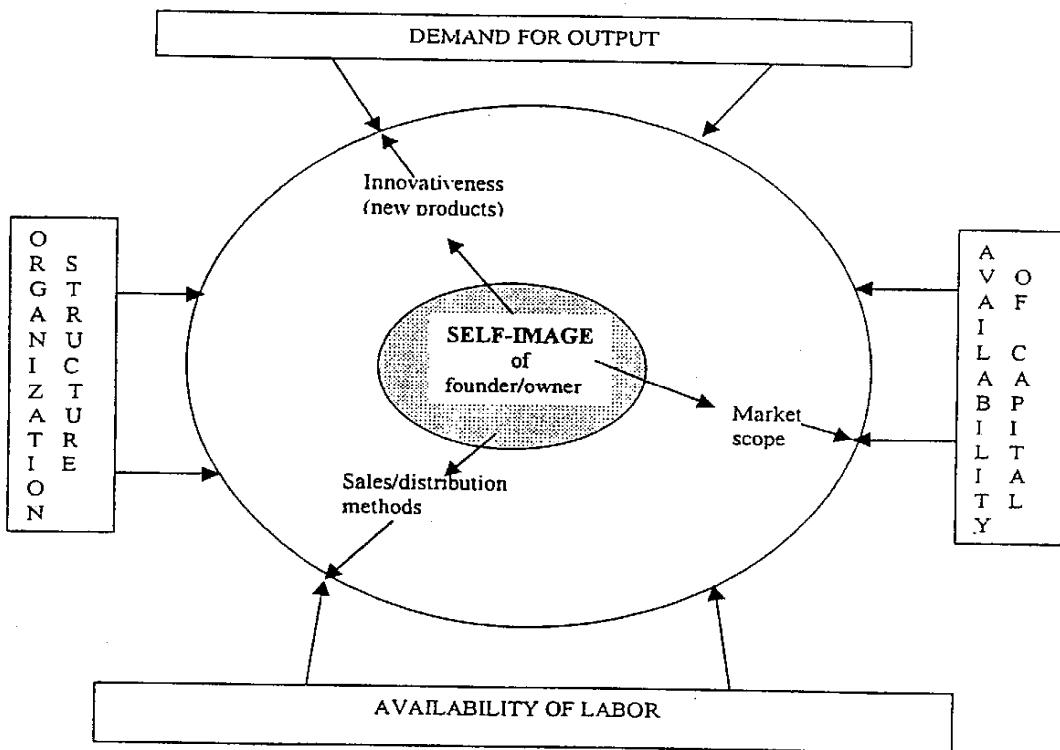
Therefore, in much of the recent growth literature researchers have argued that further studies need to be done that view growth as a much more complex, dynamic and discontinuous process than this perspective assumes (Davidsson et al., 2006; Dobbs & Hamilton, 2007; Garnsey et al., 2006). To accomplish this, it is recognised that growth *processes* or *paths* need to be studied over longer periods of time (Macpherson & Holt, 2007) and with a more idiosyncratic focus (Dobbs & Hamilton, 2007). The next section of this literature review examines this emerging literature that investigates the growth paths of SMEs.

## 2.3 Growth as a Dynamic Process

In recent reviews of the literature on SME growth (Dobbs & Hamilton, 2007; Weinzimmer et al., 1998) the predominance of cross-sectional studies has been strongly criticised. The recognition of growth as a longitudinal phenomenon is now broadly accepted. Subsequently, studies have begun to emerge concerned with tracing and explaining the growth paths of different cohorts of SMEs. However, understanding remains incomplete due in part to the idiosyncratic nature of SME growth. There is also a scarcity of longitudinal and historical research on the growth paths of SMEs, arguably due to the prohibitively high level of time and financial resources required for such studies. Presented in this section is the research that begins to focus on the growth paths of SMEs over longer time frames.

A historical study focused on the growth path of a single firm was conducted by Vinnell and Hamilton (1999). They performed an in-depth case study on an established family business, using historical archives to investigate the development of a shoe factory based in Christchurch, New Zealand, between 1945 and 1993; therefore, tracing 49 years of the firms' history: the longest period known for a study into small firm growth. Vinnell and Hamilton (1999) found growth to be a highly complex phenomenon that is “the result of an idiosyncratic and unstable process involving the interplay of the local environment and features internal to the firm” (p. 5). Nine forces were identified as impacting on the firms growth over time, negatively and/or positively: “*owner/CEO self-image; product innovation; changes in market scope; improved methods of sales and distribution; organisation structure,[sic] availability of capital (internal and external); availability of labour skills; and the level of consumer demand*” (Vinnell & Hamilton, 1999, p. 14). This model of these factors is presented in Figure 3.

Figure 3 . Forces Associated with Small Business Development (Vinnell & Hamilton, 1999)



Vinnell & Hamilton (1999) claimed that these forces needed to remain aligned or balanced appropriately to act as a force for growth, rather than a force against growth. This study highlighted the unstable and idiosyncratic nature of firm growth when studied over a long period of time, and further illustrated the need for longitudinal or historical studies to enhance understanding of the fundamentally transient nature of small firm growth.

Littunen and Tohmo (2003) conducted a longitudinal study involving manufacturing and services SMEs. This research focused on new high-growth firms, which were established in 1990, and located in Finland. Firms were interviewed every year, for the first seven years of their operation. They found that high growth firms were concurrently increasing labour productivity whilst generating new jobs and that, irrespective of locality, the new firms had equal chances for growth. Littunen and Tohmo (2003) also found that the “most successful firms were characterised by an ability to make changes in their production process to complement an active

market development strategy” (p.197), which echoes the following findings of Smallbone et al. (1995) on established small businesses.

A longitudinal project by Smallbone et al.’s (1995) involved 306 UK-based small manufacturing firms, over a ten year period (1979 – 1990). They examined established firms and focused on how firms *managed* for growth, that is, the types of strategy and management actions and adjustments. To achieve this, they focused on five of Storey’s (1994) strategy components: products and markets; production processes; employment and the use of labour; changes in ownership; and organisation and management changes. Owners and managers were interviewed and, where possible, company accounts and reports were gathered. Seventy rapid growth firms were identified (those who had more than doubled sales turnover over the ten year period) and were compared with those who performed not so well and those who had declined. Growth was found by Smallbone et al. (1995) to be a discontinuous process, with the possibility of a firm’s growth classifications changing over time (for example, from ‘growth firms’ to ‘trundlers’, and vice-versa). This is something most growth studies fail to recognise and address. The most prominent feature of the high growth firms was found to be the owner-managers commitment to achieving growth. Other characteristics that distinguished the high growth firms over the ten years from the weaker performers included: active management of product and market development; the ability to identify and respond to new market opportunities; level of involvement and importance of exporting activities; competitiveness derived from innovativeness and quality, rather than solely price focused tactics; and their ability to develop the organisation’s structure and delegate more operational responsibilities. As they covered different manufacturing sectors, they were also able to conclude that the sector that a firm is in sets the contextual framework that will determine the relative importance of these strategies associated with growth. For example, the importance of innovativeness and investment strategies to successful growth were found to vary across sectors. Many of the characteristics recognised in

this study by Smallbone et al. (1995) are consistent with those presented in the Vinnell and Hamilton (1999) model (seen earlier in Figure 3),

Another leading author on the growth paths of firms is Garnsey and associates (Garnsey & Heffernan, 2005; Garnsey et al., 2006; Hugo & Garnsey, 2005). Much of Garnsey's research is theoretically based on the seminal work of Penrose (1968). In contrast to Smallbone's research, Garnsey focused on the growth processes of *new* firms, predominately technology based businesses located in Cambridge, UK. Garnsey and Heffernan (2005) investigated growth setbacks in these new firms and discovered that they can serve as vital sources of learning. This potential source of learning in new firms was then explored in more detail by Hugo and Garnsey (2005), who found that the organisation's reflective capabilities and strong strategic relationships were crucial aids in overcoming these early hurdles/obstacles. Garnsey et al. (2006) then tested Penrosean propositions on the features of growth path, and mapped the 'typical' growth paths of firms over a ten year period from inception and analysed their distribution (see Figure 4).

*Figure 4. Turning Points Among Cambridgeshire Firms Founded in 1990, Surviving Ten Years (Garnsey et al., 2006, p. 15)*

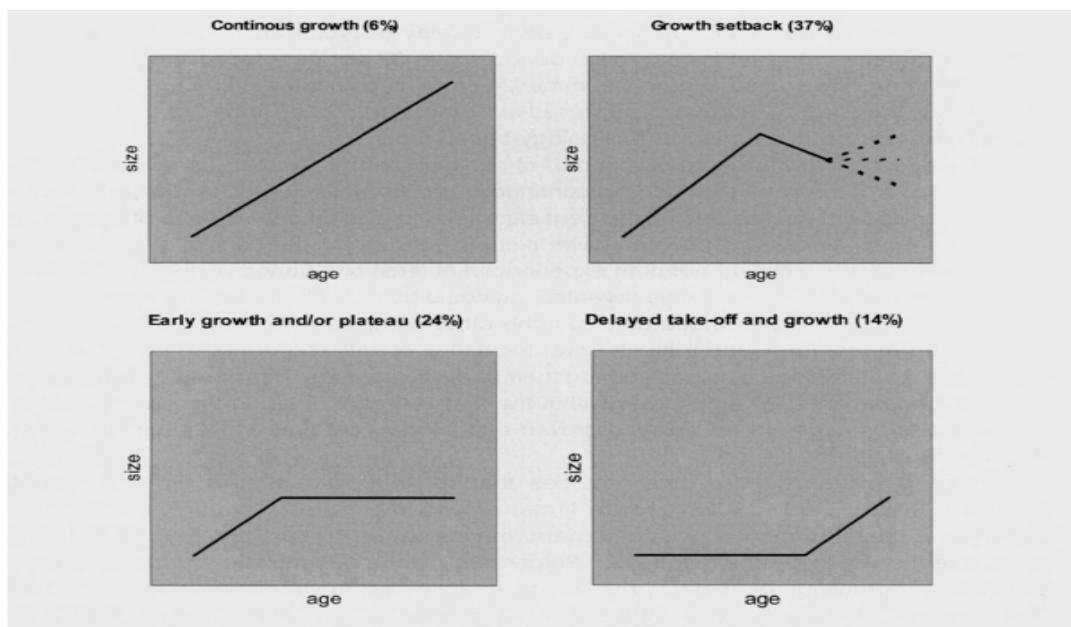


Figure 4 illustrates what Garnsey and Heffernan (2005) also found, that continuous growth is rare, with only 6 per cent achieving continuous growth. The bulk of the firms' growth paths found in Figure 4 can be characterised as achieving early growth that is interrupted and the firm then either goes into decline (as 37 percent of the firms did) or plateaus (as 24 percent of the firms did). Garnsey and Heffernan (2005) found both internal and external dynamics to be the cause of these growth interruptions: analogous to the findings of Vinnell and Hamilton (1999). However, these growth setbacks experienced by new firms were found to be an important source of accelerated learning for those that survived.

Garnsey and Heffernan (2005) argued that research on firm growth needs a complex and dynamic process approach as a:

sudden shift in phase state is typical of complex dynamic systems where the effects of change are not additive. As interlinked elements alter at the micro-level, they have knock-on effects which can shift the internal coherence, structure and performance of the whole system, sometimes quite rapidly. Firms are subject to complex dynamic processes.

(p. 676)

Garnsey and Heffernan (2005) strongly advocate the complex and dynamic nature of growth paths, only to simplify them down to a basic tautology of four not particularly distinct growth paths of new firms (as seen in Figure 4) in Garnsey et al. (2006). Any explanation is also not forthcoming as to why these paths were characterised as they were. To clarify, a *dynamic* model implies “*continuing* processes through which one sphere affects another”, and that “there is a *change* in a given process of negotiation arising for example from shifts in product market competition or the supply of labour” (Edwards & Ram, 2006, p. 901). The type of process-based analysis that Garnsey et al. (2006) referred to “engages in reasoning about interconnected causes of change and growth, and attempts to identify mechanisms and drivers of change in relation to

timing and sequence” (p. 5). This was the kind of analysis approach that Penrose took, retaining “her focus on internal processes of change while emphasising the importance of the firm’s positioning in its industrial environment” (Garnsey et al., 2006, p. 4).

The above research on growth paths, highlights two of the common propositions in the literature: (1) sustained growth is rare (Garnsey & Heffernan, 2005; Garnsey et al., 2006; Vinnell & Hamilton, 1999), and (2) growth is conducive to more growth (Davidsson et al., 2006; Garnsey et al., 2006). Growth is considered auto-correlated to further growth due to the positive feedback effect that occurs: “past success is a powerful aid to future progress” (Penrose, 1968, p. 205). The dynamic process approach explains “why conditions for growth reinforcement are not created during stasis and decline phases; growth is more propitious for further growth unless resource constraints set in” (Garnsey et al., 2006, p. 17). As Garnsey and Heffernan found, the growth trajectories of firms, and of entire industries, can abruptly change. Garnsey’s work, however, was not particular to small or medium sized firms and did not include established firms. Research of a similar nature but concerned with established firms is rare in the SME literature. Furthermore, the literature regarding growth paths and growth processes remains vague and ambiguous, providing little concrete advice for researchers on precisely how to study growth paths and insufficient advice or guidance concerning the implications of this research for practitioners.

In summary, cross-sectional data conceals the variety of development or growth paths (Hamilton & Lawrence, 2001) and the growth process “is significantly more challenging and complex than stage models portray” (Macpherson & Holt, 2007, p. 183). Garnsey and Heffernan (2005) aptly pointed out that the frequent emphasis in the literature on “rapid growth ventures and fast track stars diverts attention from the need to view new firm growth as an unfolding process in which the future cannot be extrapolated from the past” (p. 695). This area of literature views SME growth is a dynamic (Garnsey & Heffernan, 2005), multi-dimensional (Davidsson et al., 2006),

idiosyncratic (Vinnell & Hamilton, 1999), non-linear (Garnsey et al., 2006), heterogeneous (Davidsson et al., 2006) process that is prone to interruptions, setbacks, and stalls (Garnsey et al., 2006; Olson, Bever, & Verry, 2008). This elucidates part of the reason why decades of research dominated by empirical cross-sectional methodologies on the growth of small businesses has failed to produce comprehensive and unifying theories. Moreover, a firms' growth path appears to be associated with its ability to accumulate knowledge and to learn (Phelps et al., 2007; Thorpe, Holt, Macpherson, & Pittaway, 2005). This promising area of literature on organisation learning is examined next.

## **2.4 Organisational Learning**

In the 1990s, there was a surge in the volume of literature investigating organisational learning that for the most part focused on large organisations (Sadler-Smith, Spicer, & Chaston, 2001). This focus has shifted over the last decade to examining the applicability of this literature to small firms. It is increasingly recognised that an organisation's learning ability can be a significant source of competitive advantage in small firms, and that the ability of small firms and their owners to learn is an essential part of the growth process. Spicer and Sadler-Smith (2006) found that a positive relationship between organisational learning and small firm performance in a sample of UK based manufacturing firms. Adjunct (2007) also proved a positive empirical relationship between organisational learning and organisational performance. While this relatively new body of literature is conceptually rich, its diverse body of theories remains rather fragmented. Examined in this section are the key concepts and frameworks concerning organisational learning (sources and types), technology utilisation, knowledge assimilation, and the role of networks and a business's external environment.

Spicer and Sadler-Smith (2006) defined organisational learning as "the development or acquisition of new knowledge or skills in response to internal or external stimuli that leads to a

more or less permanent *change* in collective behaviour and that enhances organizational efficiency and/or effectiveness" (p. 135, emphasis added). This definition is appropriate for the purposes of this research as it illustrates the impact that organisational learning has on firm behaviour and, therefore, on performance and growth. Two of most frequently purported sources of learning in SMEs are learning from failures (Deakins & Freel, 1998; Hugo & Garnsey, 2005) and experiential learning (Dalley & Hamilton, 2000; Ekanem & Smallbone, 2007). Experiential learning is an active method of learning that holistically "combines ideas with experience and is based on learning by 'doing'" (Fuller-Love, 2006, p. 184). Additional sources of learning include overcoming obstacles or setbacks (Garnsey & Heffernan, 2005) and personal and industry networks (Macpherson & Holt, 2007).

The literature has identified different types of learning in SMEs. Spicer and Sadler-Smith (2006) distinguished between *lower-order learning* and *higher-order learning*. Lower-order learning was seen as a form of *adaptive learning*: where the organisation modifies current practices in response to internal or external stimuli, but leaves underlying assumptions unchanged. This is also commonly referred to as *single loop* or *incremental learning* (Adjunct, 2007; Sadler-Smith et al., 2001). Higher-order learning entails organisations going a step further and questioning underlying assumptions and potentially transforming long-held routines and practices. This is also referred to as *generative*, *double loop*, or *transformational learning* (Adjunct, 2007; Sadler-Smith et al., 2001). A commonly cited source of double loop learning is when firms successfully learn from failures or overcome obstacles, as it can force the owner-manager to question underlying assumptions and gain new insights into their firms or industry (Macpherson & Holt, 2007; Phelps et al., 2007). Lower-order or adaptive learning can be seen as improving the efficiency of the organisation, whereas higher-order or generative learning enhances the effectiveness of the organisation.

Organisational learning is also believed to occur at distinct levels. For example, the entrepreneur or individual level, team level and firm level (Adjunct, 2007). However, given the close relationship in small businesses between the individual owner and the firm, these distinctions add little value when generally considering learning in small firms. That is, if the owner-manager learns something new then the firm also learns it by default: the two are not often distinct in small firms.

These two types of learning have been found to affect many different aspects of SMEs, including their adoption and utilisation of technology. Chaston, Badger, Mangles and Sadler-Smith (2001) found that “small firms exhibiting a double-loop learning style, when compared with their single-loop learning orientated counterparts, are more deeply involved in utilising various aspects of Internet technology” (p. 26). The double-loop learning firms were more likely to perceive e-commerce as a source of competitive advantage. However, these authors also found that “the existence of a *formalised* learning system does not appear to influence the degree to which small firms are becoming involved in Internet technology” (p. 27, emphasis added). In small firms, learning systems are generally believed to be characterised as informal.

This emerging body of literature intertwines with the before-mentioned literature on the attributes of owner-managers or entrepreneurs. For example, the prior experience of the entrepreneur is considered to have a positive impact on the growth of a firm. This applies to the individual’s experience as an entrepreneur and in the same industry as the business under consideration. Some authors argue that their prior experience is a good source of learning due to the additional knowledge resources created, the entrepreneur’s enhanced capability to learn, and their improved ability to apply that learning (Deakins & Freel, 1998; Macpherson & Holt, 2007; Rae, 2004). In other words, an experienced entrepreneurs’ human capital has had time to emerge and evolve more than an inexperienced entrepreneurs has. However, some studies have found

prior experience to have the opposite effect, as individuals become stale and stuck in their ways (Gartner et al., 1999).

*Knowledge* is also an important aspect of the learning process that is often studied in isolation. Dalley and Hamilton (2000) define knowledge as “information combined with experience, context, interpretation and reflection; it is a high value form of information that is ready to apply to decisions and actions” (p. 51). Thorpe et al. (2005) purported that *knowledge* is crucial to the survival of small firms due to their limited economies of scale. Knowledge can aid growth in small businesses, but it can also restrict growth. Penrose (1968) argued that the “capacity of decision-makers to assimilate knowledge, co-ordinate and plan was ... the major internal constraint on growth” (Garnsey & Heffernan, 2005, p. 686).

Having deemed the life cycle literature as lacking, Phelps et al. (2007) endeavoured to develop a new model of firm growth. This model incorporated two key concepts from the learning and knowledge management literature: *tipping point* (based on the work of Gladwell, 2000) and *absorptive capacity* (based on the work of Cohen & Levinthal, 1990). Tipping points are crucial points/issues that occur during an organisation’s growth path that must be resolved before the organisation can continue to grow. They proposed that over time organisations will encounter some or all the following six tipping points in no particular order: people management, strategic orientation, formalised systems, new market entry, obtaining finance, and operational improvement Absorptive capacity refers to the firm’s ability “to acquire, assimilate, transform and apply knowledge to navigate tipping points” (Phelps et al., 2007, p. 13). A firm’s absorptive capacity is considered vital in surmounting these crucial issues. This purely conceptual model represents an early attempt to integrate some of the key concepts from the learning literature with the recognition of growth as a dynamic process. Currently, little of this literature has been applied and/or empirically tested.

Much like the literature regarding the dynamic processes of growth, this body of literature is also lacking longitudinal research. However, one longitudinal case study was conducted by Ekanem and Smallbone (2007) on small UK-based manufacturing firms. In this study, the owner-manager's decision making was conceptualised in the context of experiential learning, "which is essentially based on trial and error, bringing knowledge, skills, values and attitudes together (Gibb, 1997), providing owner-managers with an opportunity to evaluate outcomes associated with investment based on previous experience" (Ekanem & Smallbone, 2007, p. 121). Informal methods of problem solving were found to be the key theme in the decision making processes of the owner-managers, with the emphasis on experiential learning. In the conclusion, they distinguished "between 'stable' firms where owner-managers are inward facing and learning is generally experiential and concentrated on single individuals; and 'innovative' firms where owner-managers are outward facing and encourage the development of 'deeper and wider' learning" (Zhang et al, 2006, as cited in Ekanem & Smallbone, 2007, p. 123). Strong evidence was also found "that successful owner-managers utilize networking activities to obtain key information that underpins learning (Wyer et al, 2000), facilitating the development of trust, rapport and tacit knowledge" (Ekanem & Smallbone, 2007, p. 124).

Many researchers also now believe that *networks* play a crucial role in enabling learning and growth in an SME (Chetty & Campbell-Hunt, 2003; Rae, 2004; Thorpe et al., 2005). *Networks* are defined as a "collection of relationships that binds a group of independent organizations together" (Street & Cameron, 2007, p. 241), and are often characterised as informal and personal or formal and professional. Networks are seen as mechanisms for acquiring knowledge spill-overs, business referrals, complementary resources, and feedback that enhances an individual's intuitive understanding of their business or industry market (Macpherson & Holt, 2007; Rae, 2005; Street & Cameron, 2007). Street and Cameron (2007) wrote in their review of the research on small business networks that "few would disagree that forming and managing external relationships is an important strategy for small business development" (p. 239). Macpherson and

Holt (2007) also suggested that a diversity of networks is crucial and that this could include universities, suppliers, customers, business services and venture capitalists.

Furthermore, a model developed by Rae (2005) attempted to integrate certain dimensions of the literature on entrepreneurs, networks and learning, by forming what he claimed to be the first theory of entrepreneurial learning based on social constructionism. In regards to the positive impact that networks have on learning, he stated that “[c]ontextual learning occurs through participation in community, industry and other networks in which individual experiences are related, compared and shared meaning is constructed” (Rae, 2005, p. 328). This process of SMEs overcoming obstacles through learning with the aid of established networks partially demonstrates the complexity and situational nature of small firm growth.

A SMEs environment can influence factors that may lead to or constrain firm development. Learning is especially important for small firms who face an uncertain, unpredictable and complex environment that they have arguably little control over. Street and Cameron (2007) found financial uncertainty and changing risk levels in the economy increased the popularity of external networks. These “dynamic environments are associated with high unpredictability of customers and competitors, and high rates of change in market trends and industry innovation” (Wiklund & Shephard, 2003, p. 1925). In this sort of environment, being able to quickly learn is crucial, remembering that ‘learning’ entails changes in behaviour.

Finally, another area of research within the learning literature focuses on the concept of a '*learning organisation*'. A learning organisation is defined by Garvin (1993) as an organisation that is “skilled at creating, acquiring and transferring knowledge, and at modifying its behaviour to reflect new knowledge and insights” (p. 80). Tsang (1997) reported that the learning organisations literature is prescriptive and action-orientated, whereas the literature on organisational learning is descriptive and analytical. The prescriptive concept of a ‘learning

organisation' is conceptually appealing; however, the literature fails to enhance our understanding of learning in organisations far beyond defining an idealised organisational state.

In summary, an “entrepreneur’s ability to create both suitable organisational systems and activities that support knowledge transfer and encourage learning is an important antecedent for growth” (Macpherson & Holt, 2007, p. 179). Ultimately growth is supported by knowledge and learning in complex and idiosyncratic ways (Macpherson & Holt, 2007). Operating a small business therefore “involves a continuous learning process, and the ability to learn from mistakes and ensure that lessons are learnt for the future is essential” (Fuller-Love, 2006, p. 184), indicating that it is important for researchers to attempt to enhance understanding of learning processes in small businesses and the impact that these have on the growth or performance of small businesses over time. Especially as much of the organisational learning research presented above, tends to be very singular in its focus and is subsequently fragmented. Little attempt has been made to integrate this emerging literature with the existing literature on SME growth that goes back many decades.

## 2.5 Conclusion

In the pursuit of understanding why some small businesses grow over time and others do not, it is necessary to investigate the many factors, concepts, issues and frameworks argued in the literature. Davidsson et al. (2006) pointed out that:

It is very likely that factors such as strategies, entrepreneurial motivation, management team composition, organizational form, financial structure, and various aspects of relative environmental munificence are differentially related to different forms of growth. This calls for comprehensive studies of firm growth, using an array of theoretical tools and an

adequate spectrum not only of growth measures, but also measures of potential causes and consequences of growth. (p. 206)

Due to the breadth of research covered by this literature, Figure 5 is displayed below, which provides an overview of the major perspectives in the literature presented that are concerned with SME growth. This is broken down into the four main areas of most relevance to this research: key factors regarding entrepreneurs; key factors regarding the firm and its strategies; growth paths and processes; and organisational learning. The main factors, issues or findings are then listed in the corresponding categories.

As this diagram illustrates, there is no single theory that adequately explains SME growth, nor is it likely that there ever will be (Gibb & Davies, 1990; Littunen & Tohmo, 2003; Massey, 2007; Smallbone et al., 1995). This is due to the wide range of factors and processes influencing growth, directly and indirectly, and the heterogeneity of the SME sector (Garnsey et al., 2006). The literature is divided with regard to the relative importance of internal and external factors. A SME's environment should, therefore, be taken into consideration, as the "context thus defines the systems through which all information is processed, interpreted and given meaning, i.e. becomes knowledge. Context is central to what will and what will not be learnt" (Dalley & Hamilton, 2000, p. 5). Of particular interest are the components that longitudinal and historical studies of small business development found to be influential. These include entrepreneur or manager motivations, firm strategies, market and product development, firm positioning, and learning abilities.

*Figure 5 . Overview of the Core Perspectives in the Reviewed Literature*



Obviously, this research is not attached to one single framework or model. However, a collection of frameworks from the distinct perspectives on small business growth were utilised to directly inform the next phase of this research, the methodology. Sadler-Smith et al. (2003) pointed out “it may be helpful sometimes to attempt to combine different perspectives and to use existing concepts and vocabulary to aid the description and classification of the characteristics of the phenomenon and the way it behaves” (p. 61). The three primary frameworks or theories are: Storey (1994), Vinnell and Hamilton (1999), and Garnsey and co-authors (2005; 2005; 2006).

Storey’s (1994) categorisation of the different factors influencing the growth of the firm is a useful inventory of potential elements to be analysed when studying firm growth: “as an analytical tool it is useful for dissecting firms to discover relevant issues” (Cooney & Malien, 2004, p. 10). However, the research informing Storey’s work used predominately cross-sectional methods and employed a variety of definitions of ‘growth’, ‘small businesses’, and the factors involved. It is therefore of little surprise that many contradictory findings have been produced. This research in isolation is inadequate for understanding the growth and non-growth phases typical of SMEs.

Secondly, the model by Vinnell & Hamilton (1999) is advantageous for conceptualising when and what factors may be acting for or against firm growth, thus beginning to look at the bonding of these factors required for successful growth to occur. However, given that this study only involved one business, other potentially influential factors or processes not incorporated in this model cannot be ruled out at this stage. This model also raises the important issue of an owner’s motivations and aspirations. Morrison, Breen and Ali (2003) also pointed out that “intention, ability, and opportunity are linked intrinsically, and business growth is unlikely to be achieved should one be missing or unduly weak” (p. 423).

Garnsey's work on growth paths is the third key perspective (Garnsey & Heffernan, 2005; Garnsey et al., 2006; Hugo & Garnsey, 2005). This research investigated the characteristics, processes and sequencings of growth and growth interruptions over time, and the subsequent learning gained from these. This perspective encourages a focus on learning and the dynamic processes underlying growth over time; however, little tangible evidence is given on how to do this or on why the growth paths were characterised as they were. Garnsey's research also examined only the growth paths of new firms.

These three above frameworks by prominent authors on the growth of SMEs, form a general and robust conceptual framework, and guide the next phase of this research to help understand the factors and processes determining a firm's growth or non-growth path. The need to combine multiple theories and frameworks to adequately explore the topic of SME growth paths, demonstrates the fragmented state of the literature. 'Recipe' approaches fall short, as do stage and life-cycle approaches. Studies in the promising area of growth paths remain few and far between, possibly because of their costly and complex methodologies. Finally, the emerging and also promising literature on the relationships between organisational learning and SME growth is yet to be incorporated into full models of SME growth. In regards to the methodologies employed by growth research, cross-sectional methods have proven inadequate. Depth, rather than breadth, of research is recognised as increasingly important for understanding growth:

Future research in this area needs to be driven by theory and methods that reflect the heterogeneity of the phenomenon, i.e. theory that is longitudinal in scope but idiosyncratic in its focus on how and when small businesses learn to grow, treating growth as one phase in an evolving pattern of development. (Dobbs & Hamilton, 2007, p. 316)

The methodology of this research is explained in detail in the following chapter.

### **3. CHAPTER THREE: METHODOLOGY**

The purpose of this research is to identify the differences between growth and non-growth firms over the long-term. This research therefore utilised a qualitative multiple case study methodology. Qualitative research was chosen because it is flexible, it allows for a strong sense of context, and, most importantly, it enables emphasis to be placed on the process of events as they unfolded over time (Bryman, 1989). The “distinctive need for case studies arises out of the desire to understand complex social phenomena” (Yin, 2003, p. 2). This was therefore the most appropriate methodology due to the historical focus of this research that is aimed at understanding longitudinal growth as a dynamic and complex phenomenon.

The initial data set for this study comprised of the complete annual employment histories of 358 Christchurch-based businesses from 1994 to 2007. The database was compiled from the annual editions of *The New Zealand Business Who's Who* directory. The employment figures contained in the database were used as the primary indicator of each firm's growth path over fourteen years. A theoretical sample of eight organisations was chosen from two industries, manufacturing and professional and business services, to be formed into case studies. These firms were matched in pairs for sector and for growth/non-growth paths.

Semi-structured interviews were conducted with the owner-manager or longest standing partner of each company, and any available documentation and archival records were also collected. Data analysis was conducted with the aid of NVivo, a qualitative data analysis software program. Within-case analysis was performed, which entailed writing a detailed description of each case and the predominant themes of each case (Creswell, 1998). This was then followed by cross-case, cross-industry, and cross-growth classification analysis to ascertain the differences and similarities in the findings between these groups. The main themes across all of the cases were

then analysed and explored further in relation to the original research objectives and the academic literature. This chapter explains the above research method in further detail.

### **3.1 Case Study Research Method**

The aim of case study research is to generate an intensive examination of a single case, or multiple cases, in relation to which they are then engaged in a theoretical analysis (Smith & Dainty, 1991). Yin (2003) provided the following two-part definition of case study research:

A case study is an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.... The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result benefits from the prior development of theoretical propositions to guide data collection and analysis. (p. 13-14)

The unique strength of case study research is in answering the questions of ‘why?’, ‘what?’ and ‘how?’ (Saunders, Lewis, & Thornhill, 2007; Yin, 1994), especially when the focus is on a contemporary set of events over which the researcher has little or no control (Lee, 1999). Other potential research methods, such as surveys, would have lacked the ability to adequately investigate the context surrounding the cases and could not sufficiently explain “the presumed causal links in real-life interventions that are too complex” (Yin, 2003, p. 15). A multiple case study design was therefore the most appropriate research method as it allowed for a detailed examination of the complex phenomena of firm growth and the context surrounding each case (Bryman, 1989). This was particularly important due to the historical focus of this research and the embedded nature of SMEs. The lack of historical and longitudinal research in the study of

growth is recognised by many researchers as a major impediment to the development of the field and to our understanding of firm growth (Davidsson et al., 2006).

Furthermore, by employing a multiple case study design a variety of contrasting situations were able to be investigated. This is considered to enhance the overall robustness of the research findings and improve the ability for analytical generalisation (Bryman, 1989; Yin, 2003). Another benefit of comparing more than one case is that it allows for “the special features of cases to be identified much more readily” (Bryman, 1989, p. 171). It is especially important that when conducting a multiple case study a rich theoretical framework is established for generalising to new cases. This is why a comprehensive and wide-ranging literature review was conducted prior to the data collection process.

Another unique strength of a case study methodology is its ability to deal with a wide variety of evidence, including artefacts, documentation, interviews and direct observations (Yin, 2003). This can include both quantitative and qualitative data (Bryman, 1989). Multiple sources of information are important in case study research to assist in triangulating data from a variety of sources. This research will employ two main data sources: documentation and interviews. Interviewing was the main method of data collection and is discussed in greater detail in the following sections. Documentation was a supporting data source in this research. A systematic search for relevant documentation on each case was conducted prior to and following the interviews. Documentary and archival materials are beneficial supplementary data sources as they are non-reactive; that is, they are not aware of, and hence not influenced by, the fact that they are being studied. They can also cover longer periods of time and allow access to people who would not otherwise be available to the study (Bryman, 1989). A comprehensive case study database was maintained throughout the study, as recommended by Yin (2003), to enhance the reliability of this research. Before explaining the interviewing procedures, the issues surrounding

the measurement of growth need to be explored, along with the unit of analysis guiding the case study approach and the directory informing this study.

### ***Measuring Growth***

There is a great deal of academic debate in the literature with little consensus concerning how best to measure firm growth. Davidsson et al. (2006) reported six possible measures of growth: (1) absolute total employment growth, (2) relative total employment growth, (3) absolute organic employment growth, (4) relative organic employment growth, (5) absolute sales growth, and (6) relative sales growth. The academic debate frequently centres on the use of sales figures versus employment figures. The strengths and weaknesses of both are necessary to understand when investigating growth trends.

Davidsson et al. (2006) claimed that consensus has been reached amongst academics that sales growth is the best indicator of growth. Sales measures were argued as the best measure of firm growth because they are easily obtained, reflect short and long-term fluctuations, and are a common goal of entrepreneurs. These authors also recommended using both absolute and relative measurement, and employing multiple measurements of growth where possible. However, Davidsson et al. (2006) also reported that they had learned that “employment growth is actually the indicator that has the highest correlation with other alternative growth measures” (p. 8), whereas relative sales growth has been found to be not correlated to any of the other measurements of growth (Delmar, Davidsson, & Gartner, 2003). Financial measures are difficult to compare across time, industries, and countries due to deviations in accounting practises, inflationary pressures, and changes in reporting practices (Storey, 1994).

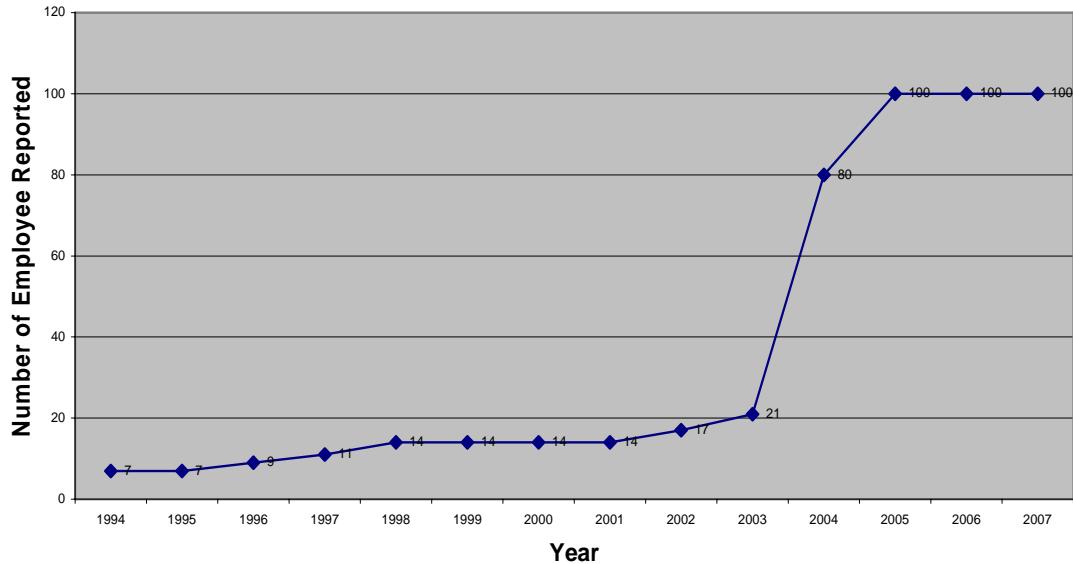
In a great deal of studies, employment data is “generally the most accepted method of measuring growth” (Cooney & Malien, 2004, p. 4). The benefits of utilising employment data include that it

is easily obtainable, simple to determine and categorise, relatively uncontroversial, can be applied across countries, and is immune to inflationary adjustments (Cooney & Malien, 2004; Dobbs & Hamilton, 2007; Vinnell & Hamilton, 1999). Employment is also the main public benefit of SMEs and is often the focus of governmental research and policy (Hamilton & Lawrence, 2001). However, the use of employment figures as a measure of growth is also highly criticised. “The main weakness of employment growth as a measure of performance is that it presumes no change in labour productivity over the period of study” (Hamilton & Lawrence, 2001, p. 53). Employment measures also do not discriminate between profitable and non-profitable growth (Vinnell & Hamilton, 1999). This can result in successful firms appearing as if they are experiencing negative growth; that is, some negative employment growth firms could have actually become more sophisticated, productive and profitable.

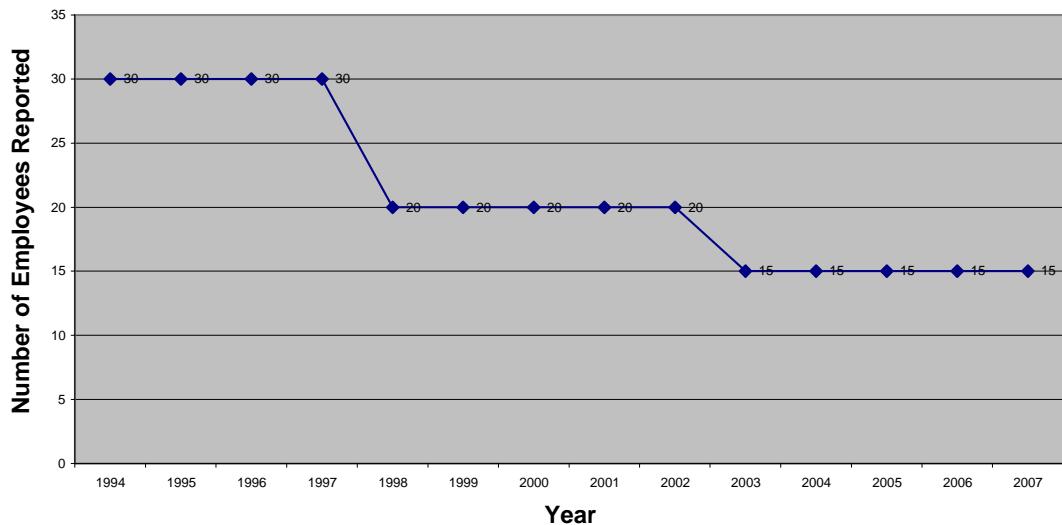
Employment figures were used as the primary indicator of growth in this research. While there are many different possible indicators, the employment figures were accessible to this study and financial data was unfortunately not forthcoming, due to the private nature of the companies involved. Figure 6 and Figure 7 illustrate the growth paths created from the employment data gathered from the *New Zealand Who's Who* directory.

Advantageously, numerous studies have found employment figures to be significantly correlated with real sales turnover (Littunen & Tohmo, 2003; Smallbone et al., 1995; Storey, 1994). Issues concerning changes in sales, productivity, and profitability were also addressed with each firm's owner-manager.

*Figure 6 . Growth Path Example: "Grower"*



*Figure 7. Growth Path Example: "Non-Grower" or "Decliner"*



### ***Unit of Analysis***

The unit of analysis is broadly described by Lee (1999) as the phenomenon under study. In research, it is important to define the unit of analysis before data collection is carried out (Yin, 2003). It is deceptively difficult to do in case study research because of the methodology's

emphasis is on real-world and natural contexts. When attempting “to isolate the (potential) phenomenon of interest from its context [it] can quickly become muddled” (Lee, 1999, p. 60). Davidsson et al. (2006) argued that a major weakness in many past case studies has been a failure to adequately define the unit of analysis. They proposed that there are three possible micro-levels of analysis in case study research: (1) an individual’s or group of individuals’ entire business activities, (2) a certain business activity or a set of related business activities, or (3) a governance structure (often an establishment, a registered legal company, or a company group).

Given Davidsson’s typology, the unit of analysis for this case study research is (2) the particular business activity or set of related business activities. The legal entity or governance structure would be a too narrower unit of analysis for this research, as multiple legal entities can be effectively operating as one organisation. This way no growth is overlooked that may have occurred into other related legal entities (for example, legal entities established for legislative purposes) or if the firm had been legally re-named but is still effectively the same enterprise. The individual unit would also not have been a suitable unit of analysis. This is because the immediate focus was not on individuals but rather organisations, and over extended periods of time, such as in this research, their key individuals are likely to have changed.

Furthermore, Bryman (1989) pointed out that activities or events can also be considered as the unit of analysis, along with the organisational unit. Therefore, the other unit of analysis of particular importance to this research is the fluctuating growth trend of each SME.

### ***The New Zealand Who’s Who Directory***

The secondary data for this study comprised the complete annual employment histories of 358 businesses over fourteen years from 1994 through to 2007. This was compiled from the annual editions of *The New Zealand Business Who’s Who* directory. The businesses were all located

within the city of Christchurch: this controlled for possible effects of location on business growth, particularly those due to differences in population growth. The businesses were classified in three broad industries: manufacturing, wholesale or retail, and professional and business services. The database also contained information on the sector, age and ownership structure of the businesses.

In this database, the businesses were ranked according to their absolute growth overall. This allowed them to be easily grouped in terms of their size change: ‘growers’ employed more people in 2007 than in 1994; ‘flatliners’ had the same employee numbers in both years; and ‘decliners’ employed fewer people at the end of the period than at the beginning. This method of classification was done to aid in the selection of a variety of performance outcomes amongst the firms in the sample. The next section will further explain how this database was used to select the firms.

### **3.2 Interviewing**

Eight organisations were chosen from the database through a process of theoretical sampling. Following this, a comprehensive interview protocol was gradually developed. Semi-structured interviews were then utilised as the main method of data collection. This was the preferred method due to its moderate level of flexibility. It allowed for a high degree of exploration into relevant issues or themes as they arose in an interview. This would not have been possible with fully structured interviews or surveys. Semi-structured interviews also enabled the interview guide to be marginally tailored for each case, whilst still retaining a degree of standardisation across the interviews. The target group was the top owner-manager in each company: “this person was taken as being a knowledgeable key informant and hence provided a valid approach to measuring organizational processes” (Sadler-Smith et al., 2003, p. 56). A key informant “is someone who is aware of all aspects of the business” (Ucbrasaran et al., 2006, p. 204). The

interview protocol was then tested on a trial firm before approaching the potential organisations. All of the interviews were digitally recorded and professionally transcribed. Respondents reviewed their transcript to ensure accuracy and provide any additional feedback or comments. The following sections explain this process more comprehensively.

### ***Selecting Participants***

The number of cases in a multiple case study is discretionary. It is a judgemental choice largely depending on the level of certainty required (Yin, 2003). Eight case study organisations were chosen for this research. This is considered to be a high number of cases for multiple case study research (Yin, 2003), due to the “in-depth nature and labour-intensive requirements” of the interviewing (Lee, 1999, p. 59). However, this was deemed a necessary amount to enable coverage of a range of contrasting situations and contexts. The eight organisations involved in this research were selected through a process of theoretical sampling. Mason (1996, as cited in Silverman, 2005, p. 93-94) defined theoretical sampling as:

selecting groups or categories to study on the bases of their relevance to your research questions, your theoretical position...Theoretical sampling is concerned with constructing a sample...which is meaningful theoretically, because it builds in certain characteristics or criteria which help to develop and test your theory and explanation.

Theoretical sampling is a tool of qualitative research that basically enables the researcher to choose cases that illustrate some feature or process that is theoretically interesting to the concerned research objectives (Silverman, 2005). The cases in this research were deliberately chosen to encompass two industries and a range of growth paths. The sample drew on two contrasting industries: manufacturing and professional and business services. Much of the growth literature has traditionally focused on manufacturing firms, and relatively little has

concentrated on professional and business service firms, despite their increasing importance in modern economies. Time and personnel restrictions also meant that it would not have been feasible to adequately cover all three industries present in the database.

This study began by focusing on the top 20 ‘growers’ and the bottom 20 ‘decliners’ within each industry, so as to provide a range of growth trajectories and narrow the potential sample. The 40 firms from each industry were examined to ensure that there was one senior person involved with the company at least from 2000 to 2007. This was deemed necessary to increase the likelihood that the interviewee would have reasonable knowledge of the firm’s history. It was also preferable if there had been a reasonable amount of fluctuation in the firm’s growth since 2000, as the ability of the interviewee to recall details would have diminished over time. In addition, it was preferable if the firm had a website for the company, although this was not compulsory. Where available, this was a useful source of knowledge prior to an interview and also served as an additional data source later on. The above selection criteria successfully narrowed the sample. The next step was to pair up the firms according to similar lines of work *and* contrasting growth paths.

Pairs of firms were created that were in similar sectors within each industry. Each pair contained one firm that had experienced an overall increase in the number of employees between 1994 and 2007, and one that had decreased their overall number of employees. The above criteria resulted in a list of the top ten preferred manufacturing firms and the top ten preferred professional and business services firms. They were then contacted in order of preference, which was determined by how well they met the above criteria.

Informational letters and consent forms were sent to each of the selected firms (See Appendix B and Appendix C). Within a week of sending the letters, a follow-up phone call was made to each contact asking if they had any further questions and if it would be possible to arrange a date and

time for the interview. Even in cases where the letters had not been received by that particular contact person, the owner-managers were found to be generally receptive to being interviewed. In total, 17 firms were contacted before the sample of eight was complete. Reasons given for refusal included having an excessive work load, the company being recently taken over, ill health, and the management no longer being based in Christchurch.

In the end, the four firms from the manufacturing industry included two metal engineers and two plastics fabricating firms. Within the professional and business services industry, the resultant sample included two accountancy firms and two legal firms. As is the nature of theoretical sampling, this sample was *not* chosen to be representative of any particular population, but rather to enhance our understanding of the concept under study and to eventually facilitate the development of a theoretical framework. It achieved this by incorporating these two key industries and matching up pairs of firms within the same line of work so that one had experienced positive overall growth and the other negative overall growth over the same time period.

### ***Development of the Interview Protocol***

The interview protocol created encompassed a guideline for preparation prior to an interview, the interview guide to be utilised during the actual interview, and a field notes structure of topics to be reflected on immediately after the interview.

The procedure prior to each interview began the day before and followed a checklist format. For example, the necessary documents were printed off and the tape recorder was checked for memory space and battery power. Finally, the interview guide would be reviewed again so as to re-familiarise with the questions. This was done to ensure that, when arriving at an interview,

everything was prepared, and that when conducting it everything proceeded in a timely and orderly manner, as much as possible.

As recommended by Bryman (1989), the interview guide was designed to ease into the interview with simple, non-threatening questions. This covered general background statistics and facts regarding the company and then the participant's history. The development of the interview guide began after a thorough examination of the various perspectives in the literature concerned with growth. Due to the diverse and conflicting nature of findings within this literature, the interview guide was kept as broad as possible in an attempt to cover a wide array of potential issues or factors that may be affecting the development of the firm over time. It was designed to be as exploratory as possible due to the lack of research on long-term growth and non-growth paths. The three key models or frameworks formed the theoretical base for the interview guide were: Storey (1994, p. 123), Factors Influencing Firm Growth; Vinnell and Hamilton (1999, p. 15), Forces Associated with Small Business Development; and Garnsey's work on the growth paths of new firms (2005; 2006; 2005).

These models covered the three main areas of focus: (1) the key factors historically reported as impacting on firm growth, (2) the dynamic nature of processes involved, and (3) the more recent literature regarding the potential relationship between learning and firm growth. These frameworks served as a “visually compact map to highlight potential primary and secondary activities of a particular business organisation” and aided in the “design of the case study interview instrument by providing a full contextual framework of interlinked sub-activities (value activities) together with the highlighting of crucial potential linkages between those value activities and other important actors within the small firms external environment” (Wyer & Johl, 1997, p. 368).

It is important to note that, as is the nature of semi-structured interviews in qualitative research, “the investigator uses a schedule but recognizes that departures will occur if interesting themes emerge from what respondents say and in order to get their version of things” (Bryman, 1989, p. 149). All of the questions in the interview guide were asked unless inapplicable to the firm in question; however, the questions were asked in varying order to enhance in the flow of the interviews. The interview guide finished by asking the respondents about the envisaged future growth of the company, so as to finish on a more positive topic, and asked if there were any other relevant topics or aspects yet to be discussed.

All of the interviews were tape recorded and transcribed. This was done as audiotapes “provide a more accurate rendition of an interview than any other method” (Yin, 2003, p. 92) and allows the interviewer to focus on the discussion at hand, rather than having to take extensive notes. Providing a transcript is also a way of offering the interviewee something in return for their time, whilst also checking its accuracy and potentially enticing further post-interview thoughts on the topics discussed (Bryman & Bell, 2007).

The field notes guide formed the final part of the interview protocol. This was adapted from another masters thesis by Justin Brown (2008, p. 169). This was verbally discussed and digitally recorded immediately following an interview. This enabled consistent note-taking of factors such as the physical artefacts of a company, the behaviour of the interviewee, the nature of the interaction between the interviewee and interviewer, and any immediate thoughts on the case.

### ***Trial Case Study***

For any research involving interviewing it is recommended that a pilot test is conducted. A pilot case study allows for the content and procedures of the interview protocol to be refined if necessary (Yin, 2003). It also allows the interviewer to practise using the interview protocol. A

pilot test case was therefore done for this research. An owner-manager agreed to be interviewed regarding their small business that had experienced rapid growth since establishment in the 1990s. This was valuable practice and it also highlighted some of the difficulties involved in historical research and with focusing the interviewee specifically on the growth path. The interview guide was altered following this trial interview, including revising the order of the questions and creating additional areas of questioning.

### **3.3 Analysis Techniques**

Qualitative analysis “involves the researcher thinking about data, developing ideas about it and exploring these ideas” (Gahan & Hannibal, 1998, p. 8). This research involved a lengthy period of data analysis involving various phases of analysing the data in detail and in more general terms. The analysis was conducted with the assistance of the qualitative data analysis software, NVivo 8. The first step involved analysing the case studies in isolation from one another, also referred to as within-case analysis. Extensive content analysis was conducted across all of the interviews and the within-case analyses were reviewed. Three further levels of analysis were then investigated: paired analysis, cross-industry analysis, and cross-growth classification analysis. Following this, the codes created and the content coded were reviewed for consistency, accuracy and relevance. The final two phases consisted of thematic analysis and modelling of the various levels of findings. NVivo 8 enabled the analysis process to be more systematic, comprehensive and accessible. This section explains the various phases of analysis in further detail.

After re-reading each interview transcript and supporting documents, the within-case analysis of each case study was drawn up. This involved generating a description of each case and identifying the main themes, issues or concepts raised. The preliminary analysis then involved utilising NVivo 8 to perform a *content analysis* on all of the interview transcripts. Content

analysis is a “systematic coding and categorising approach which you can use to unobtrusively explore large amounts of textual information in order to ascertain the trends and patterns of word use, their frequency, their relationships and the structures and discourses of communication” (Grbich, 2007, p. 112). Moreover, the actual coding is “based on themes and processes identified from the transcribed interviews, while informed by the guiding frame of references identified in the initial literature review” (Ekanem & Smallbone, 2007, p. 113). This timely process was crucial to this qualitative research. An overview of the completed coding in NVivo 8 is available in Appendix F. After the coding was completed, within-case analysis was again briefly considered and compared with the first round to assess any changes or additional factors uncovered.

Cross-case analysis then followed in order to recognise any differences or similarities across the pairs from each sector (Stake, 2006), that is, looking for any specific factors peculiar to the firms of one sector relative to another. This led into the next level of analysis, cross-industry analysis. At this stage it became apparent that a significant amount of divergence was coming from the growth and non-growth categories, regardless of sector or industry. The cross-growth classifications were then analysed.

This was then followed by a thematic analysis (Grbich, 2007). The first phase of which involved the codes or nodes in NVivo 8 and their content being reviewed and edited. This was important to do to ensure the consistency and accuracy of the coding across all of the interview transcripts, given the time taken to conduct the analysis. The order that the transcripts were coded in was also varied. Conceptual maps were manually produced on the codes deemed to be of high importance to the research objectives. This was followed by the querying and modelling of the data through NVivo 8. The technique of conceptual mapping was supported where possible by an enumerative approach made possible by NVivo 8. However, it is important to note that due to the limited number of cases in this research, this was merely used as an additional method of

inquiry to test the dominance or absence of certain concepts, categories or themes in the cases.

Examples of this are given in following chapters.

Furthermore, where possible, all sources of information regarding the cases were triangulated.

Triangulation is the method of employing multiple sources of information to converge on a valid account of the information under investigation (Oliver-Hoyo & Allen, 2006). This included information from the company's websites, non-company websites, public records, and field observations. This is a common analysis procedure in research involving multiple case studies (Creswell, 1998). Towards the end of writing up all of the above, the transcripts were revisited and assessed with regards to the codes and findings. This was done as a final check and to obtain closeness to the data again.

Finally, the literature was re-examined to assess its relevance and its relationship to the findings and themes discovered, raising analysis to a higher level. As Creswell (1998) explained, the final part in the analysis process involves looking at the lessons learned from the research. This involves assessing the implications of the research for theory, practitioners and researchers. The above-mentioned findings, discussions and implications are discussed in chapters four through to seven.

### **3.4 Ethical Issues**

Due to the voluntary and relatively impersonal nature of the interviews that were conducted, a low risk human ethics approval was sought and subsequently granted on 03/04/2008. A copy of the approval letter can be seen in Appendix A. Every participant was assured of the anonymity of themselves and their respective firms, and they all approved the interviews being tape recorded and transcribed. Informed consent forms were signed by all interviewees (see Appendix C).

### **3.5 Quality Concerns**

In Yin's (2003) seminal book, four tests commonly used to establish the quality of case study research are described: *construct validity*, *internal validity*, *external validity*, and *reliability*. Yin (2003) also suggests methods to address these quality concerns. The quality constructs and any applicable remedial methods are outlined in this section.

Construct validity refers to research that develops sufficient operational measures for the concepts being deliberated upon (Yin, 2003). This is tested in the data collection and composition phase of research. This study enhances construct validity through the use of multiple sources of information and by having key informants and colleges regularly assess the report.

Internal validity refers to the accuracy or credibility of causal statements or inferences, and is an issue in the data analysis phase. To address issues of internal validity rival explanations were assessed and alternative explanations were argued for and ultimately disproved. This was an ongoing process throughout the research. The final report was also member-checked by colleagues and key informants from the cases.

External validity considers the generalisability of research findings and is a commonly debated issue concerning the nature and design of case study research. However, the aim of this research is not to generalise to populations, but to expand and generalise theoretical propositions, also referred to as analytical generalisation (Yin, 2003). The ability of this proposed research to analytically generalise is enhanced through the development of multiple cases.

Finally, the issue of reliability is concerned with the ability of research findings to be replicated. Addressing this concern required detailed recording of the data collection process and

maintaining a comprehensive case study database: all of which has been provided and described in detail as much as possible in this thesis.

### **3.6 Limitations of the Methodology**

The three primary areas of limitations in this research methodology are in relation to *data concerns, key informant problems, and researcher skills*.

Measuring growth with employment figures has limitations, such as not being “affected by labour productivity increases, machine-for-man substitution, degree of integration, and other make-or-buy decisions” (Davidsson et al., 2006, p. 184). These issues were discussed as much as possible with the interviewees and adjustments were made accordingly. Bryman (1989) noted:

There is always a recognition that a measure is likely to be a relatively imperfect representation of the concept with which it is purportedly associated, since any concept may be measured in a number of different ways, each of which will have its own limitations. (p. 7)

Only using one variable to measure growth is a limitation (Adjunct, 2007): multiple measures of growth is desirable to provide richer information. However, as described earlier, additional measures were not available to this research.

Key informants research has limitations in regards to memory problems, unreliable self-assessment, bias or ignorance, and social desirability bias. Bryman and Bell (2007) refer to these limitations as the *bias of retrospective accounts*. Since this research covered a period of 14 years, three main strategies were utilised to attempt to minimise the problem of recall. Firstly, interviewees were informed prior to the interview of the time period that this research was

focusing on, along with the general topics to be discussed. Secondly, a graph of their employee numbers was provided as a prompt during the interview. Finally, where possible key assertions from interviewees were triangulated with information acquired from publicly available sources. Self-assessment can be problematic with regard to its reliability and validity. It is reported that people have a tendency to overestimate their own achievements and competence (Salojärvi, Furu, & Sveiby, 2005). Self-assessment is therefore “more reliable for gauging processes, behaviours and attitudes than for assessing own results and achievements” (Salojärvi et al., 2005, p. 108). Fortunately, the focus of this research was largely on the processes, strategies, and actions of the firms; therefore, minimising self-assessment issues. Studies have also found owner-managers’ perceptions of the performance of their businesses to be relatively accurate. A final problem involved with interviewing is the well-known issue of social desirability bias. This refers to the propensity to of respondents to reply to questions in socially desirable ways: “[t]his tendency suggests that many people seek to present themselves in a positive light when answering questions” (Bryman, 1989, p. 66). While it is difficult to know how prevalent social desirability bias is in social research, some standard tactics can be used to attempt to minimise it. This includes clearly framing questions so as not to elucidate possibly desirable answers, not reacting judgementally to responses, and not becoming overly friendly with interviewees (Bryman & Bell, 2007).

Finally, while interviewing is ideal for rich data, the quality of the data is influenced by the skill and biases of the interviewer and the context of the interviews. All researchers should remain alert to any potentially harmful biases that they may have or that may arise, and they should also pay attention to the settings of interviews. To address these issues, the opinions of colleagues were regularly sought and contrasting theories and findings argued for, as recommended by Yin (2003). A consistently employed interview protocol is helpful in reducing researcher bias, which is why a thorough interview protocol was prepared and implemented in this research. Extensive field notes were also taken that allowed reflection on the researcher’s state of mind prior to and

following every interview. This aided in assessing and minimising any researcher bias. In addition, Professor Hamilton supervised the trial interview to assess the success of the interview protocol and the researchers' questioning.

### **3.7 Conclusion**

A qualitative multiple case study research method was the most appropriate method for this research. This method allowed exploration into the growth and non-growth of SMEs over a long period of time, which is an underdeveloped area of research amongst the extensive SME growth literature. As it is a flexible research method, it also enabled exploration into how best to study growth as a complex and dynamic phenomena. Theoretical sampling was an important research tool that facilitated the construction of the theoretically relevant sample, providing "data pertinent to understanding the research problem" (Ekanem & Smallbone, 2007, p. 112). The sample constructed included growth and non-growth firms from four sectors, across two industries. Employment data from the *New Zealand Who's Who* provided the growth paths informing the study, and historic interviewing then produced the primary data. Semi-structured interviews provided the depth and flexibility that was required (Ekanem & Smallbone, 2007; Yin, 2003). The analysis procedure was then greatly enhanced by the use of NVivo 8, which allowed data to be explored and analysed from many different angles and many different levels. The eight firms involved in this research are introduced in the following chapter.

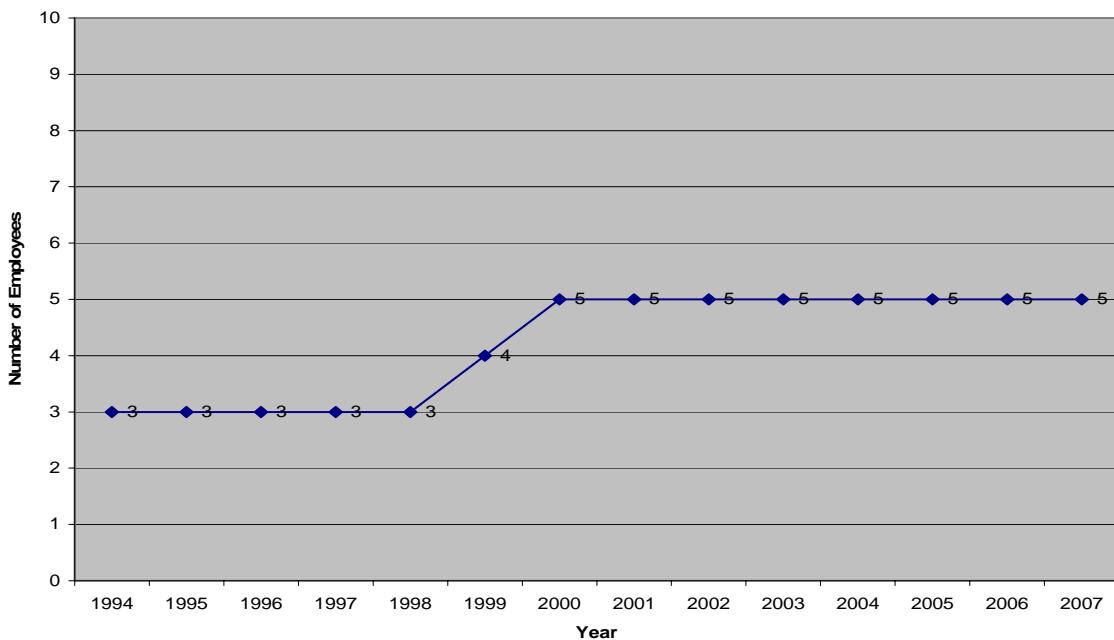
## **4. CHAPTER FOUR: FIRM PROFILES**

This chapter presents the eight companies, their owner-managers, and the growth paths of each business involved in this research. Firms one to four are manufacturing firms; the first two are plastics manufacturers followed by two metals manufacturers. The services industry is then represented by firms five through to eight, which includes two legal firms and two accountancy firms respectively. For each of the pairs, the firm whose growth path is characterised as non-growth is presented first, that is, declined or plateaued overall, followed by the firm that has grown over the same time period, 1997 to 2007. To conclude, the overall demographics of the sample are displayed.

## 4.1 Firm One

The first firm to be presented in the sample is a plastic goods manufacturer that specialises in flexible plastic products. This firm was established in the 1960s and the interviewee purchased the business in 1993. It is a very small firm with less than five employees, which includes the owner and his wife. The owner-manager has a background in teaching, and this is the first and only business that he has owned or operated. When the firm was bought by the interviewee it had only one man working in the factory, and was described as “*definitely in decline*”, with only a couple of years left in it. Within the first few years of owning the business, the interviewee claimed to have succeeded in tripling sales and doubling profits. This has allowed him to add two more factory staff and step back from the business himself. Since the year 2000, the firm has remained steady with five employees (see Figure 8). The business was providing the interviewee with a satisfactory income, which recently enabled him to partially retire in his late 50s.

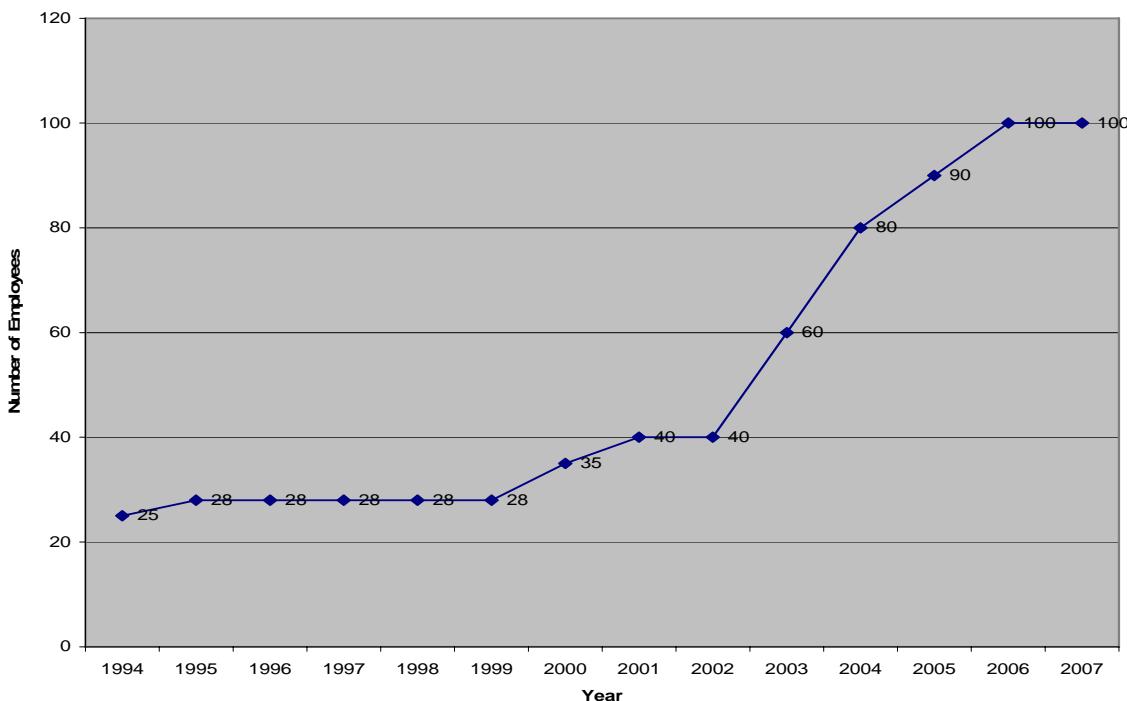
Figure 8. Growth Path of Firm One



## 4.2 Firm Two

Firm Two is also a plastics manufacturer, specialising as a custom plastic injection moulder and supplying worldwide. This firm was founded by a consortium of three businessmen in the 1970s. By the mid 1990s, retirement beckoned for the last of the three founders, and so the business was bought out by the interviewee. Since then, the company has grown rapidly from a base of 25 in 1994, to 100 in 2007: an overall growth rate of 300 percent. This firm had the second fastest growth rate out of the businesses in this sample. The owner-manager has an engineering degree and over 30 years experience as the CEO of various manufacturing firms. He is also currently involved in a number of other manufacturing firms.

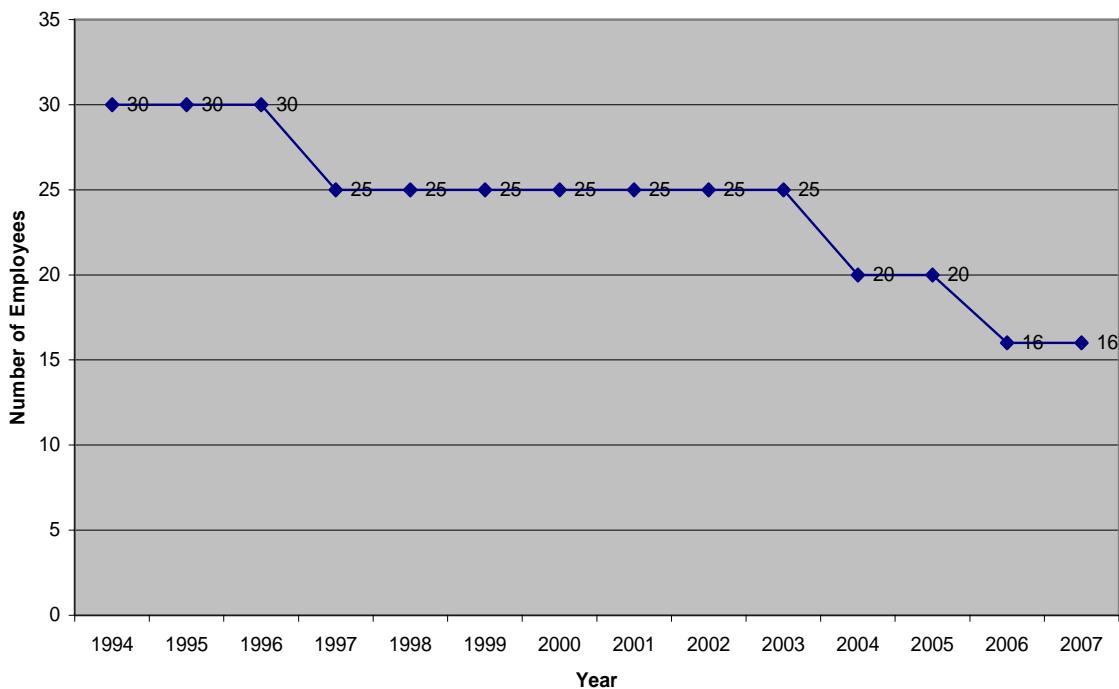
*Figure 9. Growth Path of Firm Two*



### 4.3 Firm Three

The third firm was established in the 1930s, and has been a family-owned and operated business for three generations. This firm is a metal manufacturer that produces a variety of metal components and tool boxes. In 1994, this firm had 30 employees and by 2007 they reported 16 employees, an overall decline of 47 percent (the interviewee claimed to have actually dropped to 10 employees by 2007). This firm has experienced the steepest overall decline in this sample. The current owner is in his 40s, making him the youngest in the sample. He has worked in the business ever since attaining a degree in engineering. His brother also currently works for the firm and his mother is also significantly invested in it.

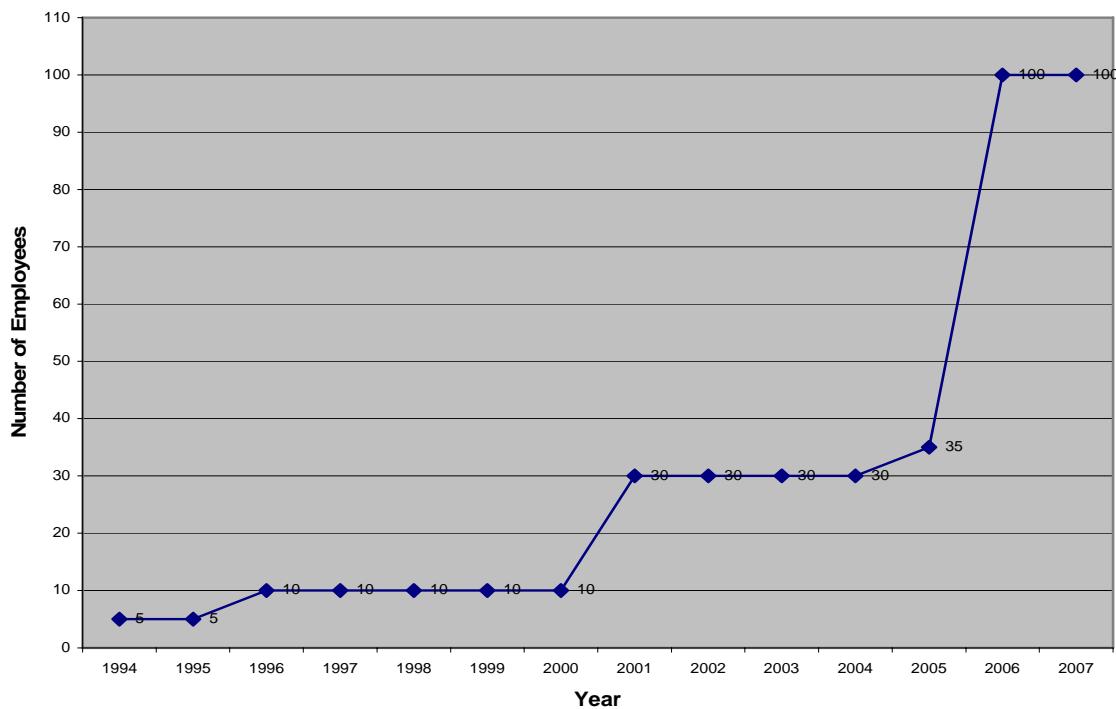
*Figure 10. Growth Path of Firm Three*



#### 4.4 Firm Four

Firm Four is the youngest firm, having been established in the 1990s by the interviewee. This firm experienced the highest level of growth over the time period, increasing 1900 percent on their original size. In 1994 it had five employees and in 2007 it reported 100 employees. Also a metal manufacturer, this firm designs and manufactures a variety of metal products, including steel components and frames. The owner-manager is in his 70s and is nearing retirement. The general manager has been trained up as a replacement. This interviewee has founded and operated a number of businesses in various industries, including property development, marketing and liquidating services. This owner-manager was the only non-university educated interviewee, has he had completed an engineering apprenticeship instead.

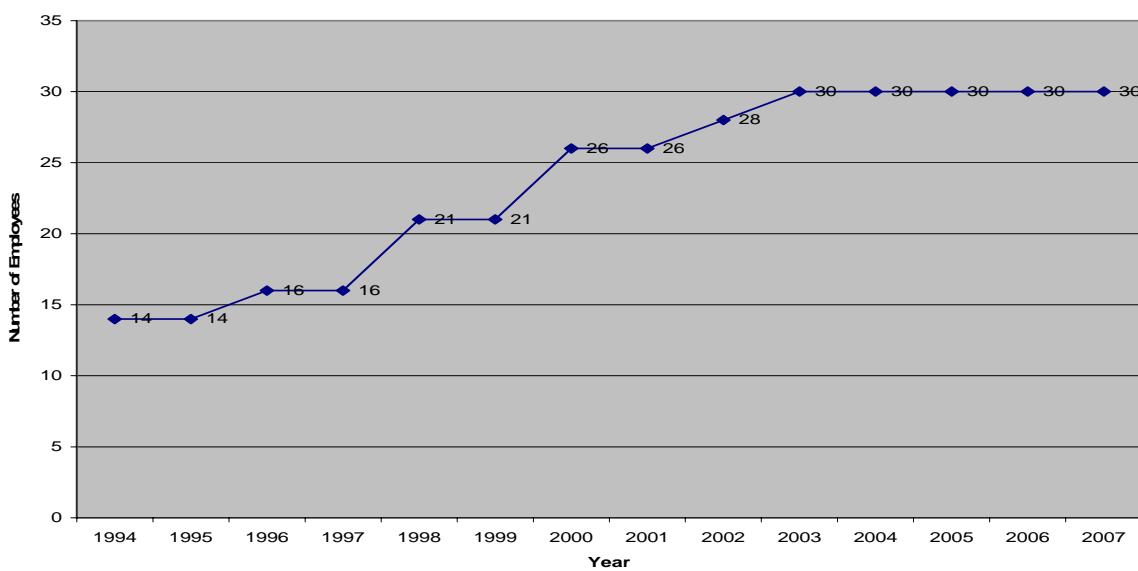
*Figure 11. Growth path of Firm Four*



## 4.5 Firm Five

The first of the four professional and business services businesses is a law firm, Firm Five. This firm provides the standard legal services, including employment law, family law, court services and property law. Established in the 1890s, Firm Five is the oldest firm in this sample. It operates with four partners across two locations: one primary office in the centre of town and one smaller practice in the suburbs. The interviewee attained his law degree and worked briefly overseas before settling in Christchurch. He is now in his 60s and has been with the firm for over 30 years. This firm reported 14 employees in 1994 and 30 in 2000. However, since an initial period of growth, the firm has more recently plateaued. Despite this early growth, it was decided to switch the firms in this pair in terms of their growth or non-growth classifications. This was done because of the outsourcing discovered by Firm Six and this firm's stagnation for the last few years, compared with the recovery of Firm Six after a decline at the beginning of the period. Furthermore, Firm Five was perceived to have demonstrated less propensity for growth than the other legal services firm.

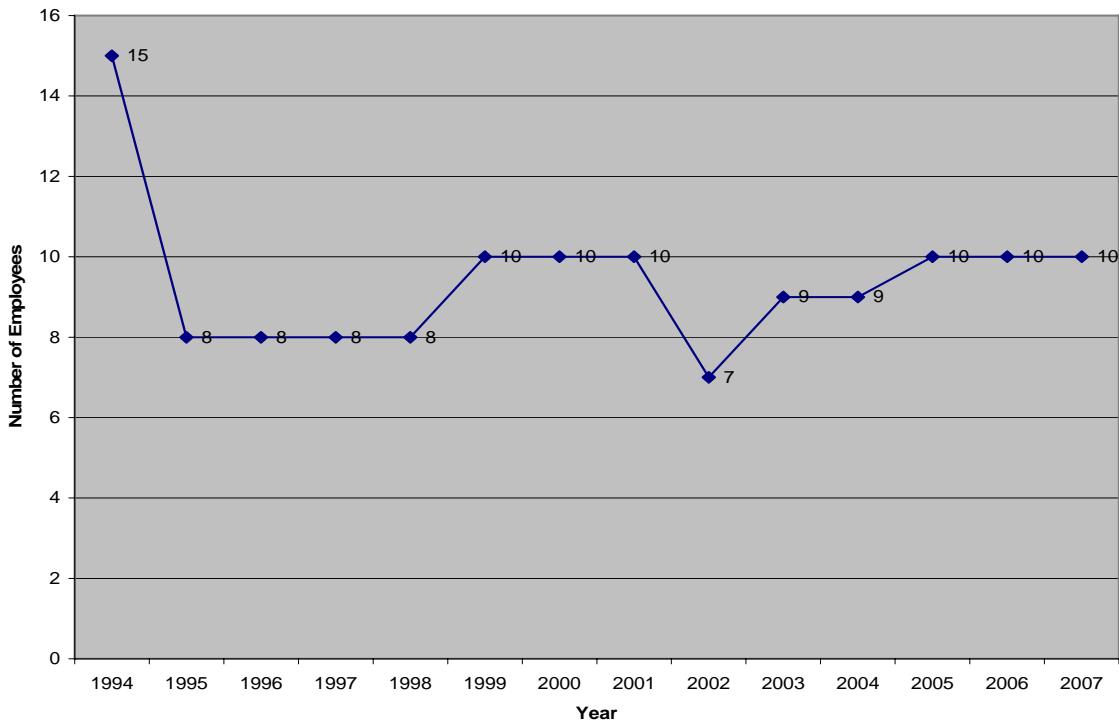
*Figure 12. Growth Path of Firm Five*



## 4.6 Firm Six

Firm Six is the second youngest in the sample, having been founded by the interviewee in the 1980s. As alluded to above, this firm began in 1994 with 15 employees and promptly fell to ten, which is approximately how many employees they have since averaged. In the legal industry, this firm is considered to be a ‘boutique firm’. While they do provide the standard legal services, they are recognised nationally for their litigation skills in complex cases of high public interest. The interviewee has a unique background, having gained his law degree whilst serving as a policeman for over 15 years. He then proceeded to work for a couple of legal firms before founding this business, and has since become involved in a number of different businesses. Firm Six has one office located in the central city.

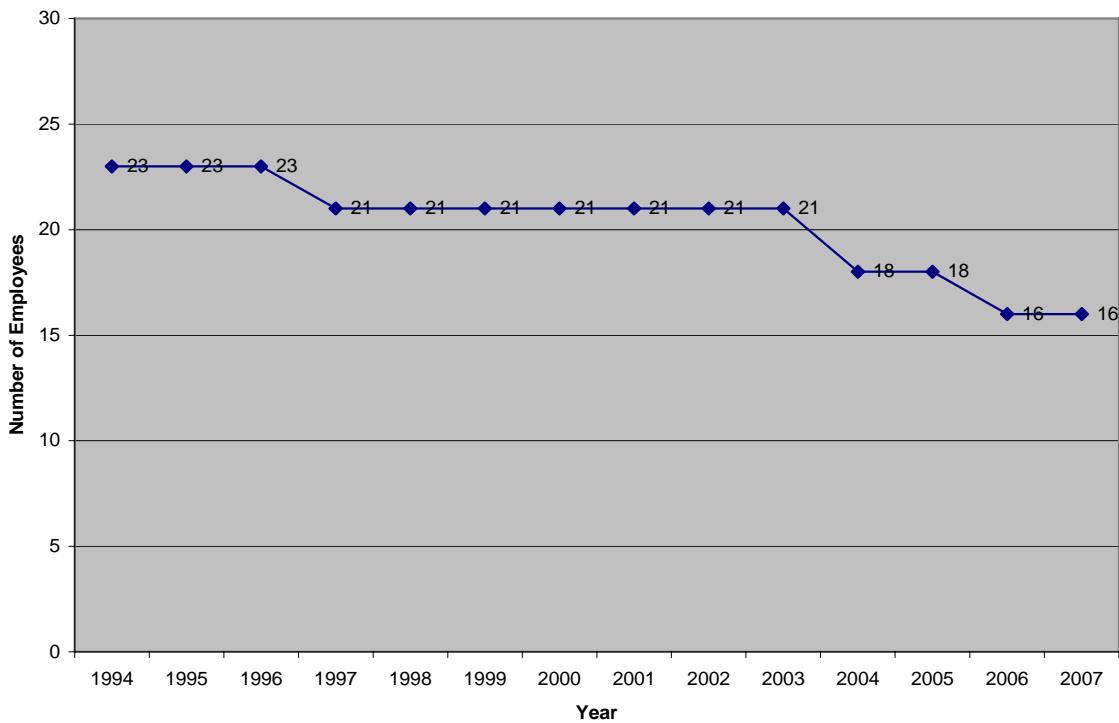
*Figure 13. Growth Path of Firm Six*



## 4.7 Firm Seven

Firm Seven is a well-established business that was founded in the 1930s. It is a full service accountancy firm, offering standard accountancy services, business advice, taxation, and auditing services. It currently operates with three partners in one central city location. After finishing his university degree, the interviewee worked for a small accountancy firm before joining this company over 30 years ago. He is also now in his 60s. Firm Seven's employee numbers have gradually dropped from 23 in 1994 to a low of 16 in 2007, with a long period of plateaux in the middle of the period.

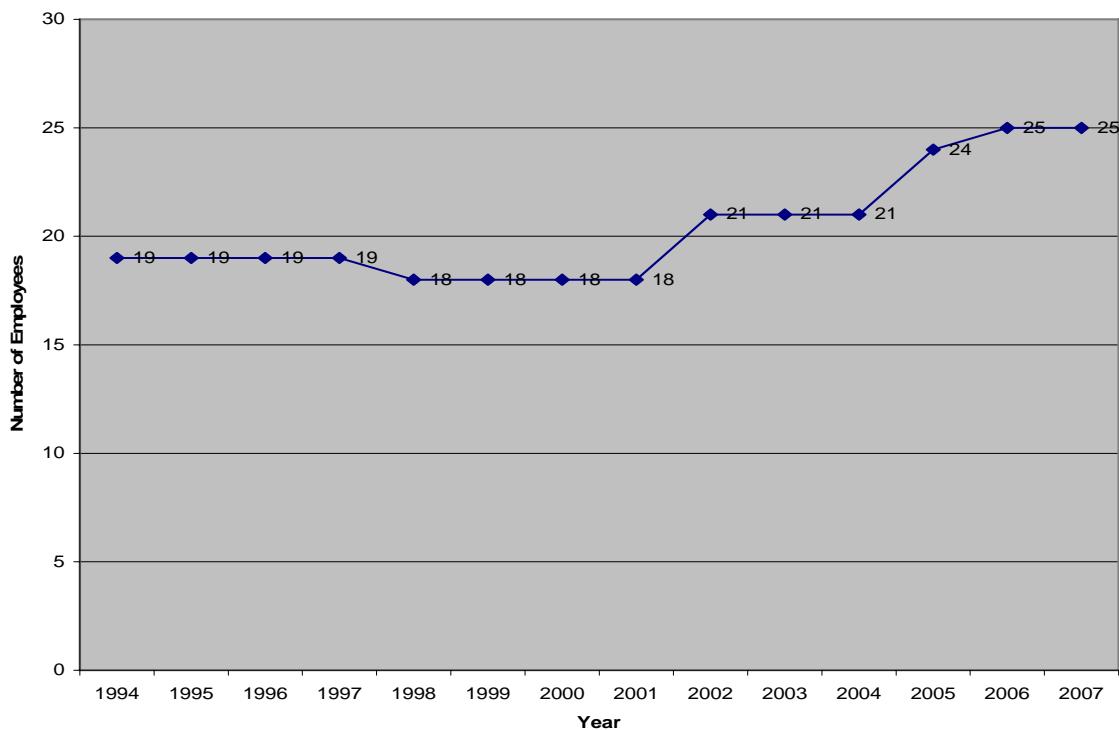
*Figure 14. Growth Path of Firm Seven*



## 4.8 Firm Eight

The final firm presented here was established in the 1960s and provides a wide range of accountancy services, such as business advice, taxation advice, audit services, property services, and investment services. The firm is currently managed by four partners and recently relocated to an upcoming suburban business area. The interviewee was the longest standing partner, and has been with the firm for nearly 40 years. He was also the only postgraduate educated person in this sample. Over the relevant time period, this firm has grown from 19 employees to 25 by 2007: an overall growth rate of 32 percent. Firm Eight has now also been associated with an international company for over 20 years.

*Figure 15. Growth Path of Firm Eight*



## 4.9 Overview of Sample Composition

An overview of the sample businesses is provided in the tables below. The tables are followed by a brief description, before the findings are presented in the subsequent chapter.

*Table 2. Manufacturing Firms and the Interviewees*

	<b>Firm 1</b>	<b>Firm 2</b>	<b>Firm 3</b>	<b>Firm 4</b>
<b>Sector</b>	Plastics	Plastics	Metals	Metals
<b>Overall Growth Classification</b>	Flat-lined	Grown	Declined	Grown
<b>Established</b>	1960s	1970s	1930s	1990s
<b>Family Involvement</b>	Wife is a partner	No	Third generation	Wife is a partner
<b>Interviewee:</b>				
<b>Founder</b>	No	No	No	Yes
<b>Time with the Firm (years)</b>	15	12	23	18
<b>Age</b>	60s	50s	40s	60s
<b>Highest Education</b>	University degree	University degree	University degree	Apprenticeship
<b>Involvement in other Businesses</b>	No	Yes – Portfolio Entrepreneur	No	Yes – Portfolio Entrepreneur

*Table 3. Professional and Business Services Firms and the Interviewees*

	<b>Firm 5</b>	<b>Firm 6</b>	<b>Firm 7</b>	<b>Firm 8</b>
<b>Sector</b>	Legal	Legal	Accounting	Accounting
<b>Overall Growth classification</b>	Flat-lined	Grown	Declined	Grown
<b>Established</b>	1890s	1980s	1930s	1960s
<b>Family Involvement</b>	No	No	No	No
<b>Interviewee:</b>				
<b>Founder</b>	No	Yes	No	No
<b>Time with the Firm (years)</b>	33	22	35	35
<b>Age</b>	60s	50s	60s	60s
<b>Highest Education</b>	University degree	University degree	University degree	Higher level University degree
<b>Involvement in other businesses</b>	No	Yes – Portfolio Entrepreneur	No	Yes – Portfolio Entrepreneur

These tables show that seven out of the eight business owner-managers in this sample were university educated, only one of whom was postgraduate educated, with the remaining one having completed an apprenticeship. Two of interviewees had founded the business in question, one from each industry group. All four of the interviewees from growth firms were also actively involved in other organisations. Only one of the firms was a family business, and in two of the firms the wives were involved as partners. None of the services firms had any obvious level of family involvement.

Furthermore, all of the interviewees were European males, aged between 40 and 70 years old. As could be expected, all of manufacturing businesses were located outside of the city centre in industrial areas, whereas three of the four professional and business services firms were located in the city centre, with one located in an upcoming suburban business area. This is a theoretical sample and, as explained in the methodology in Chapter Three, is not designed to be representative of the industries or the broader economy.

## **5. CHAPTER FIVE: FINDINGS**

There are many factors and processes to take into account when conducting a multiple case study on the development of SMEs, including the different levels and types of analyses that are possible. Now that the firms have been briefly introduced, the findings from four distinct levels of analysis are presented in this chapter: cross-case or paired analysis, cross-industry analysis, cross-growth classifications analysis, and thematic analysis. The basic differences and similarities found between these groups are presented, followed by the four overall themes. These findings are later discussed and analysed in more depth in Chapter Six.

### **5.1 Cross-Case Analysis**

#### ***Pair A: Firm One and Firm Two***

Pair A consists of two long established businesses from the plastics manufacturing sector. The interviewees both bought their respective businesses 12 - 14 years ago. Firm One is classified as a non-growth firm, having largely flat-lined over the entire period. Since buying the company, the owner-manager has managed to develop the business enough to stabilise it. This brief period of growth was the result of the addition of a lucrative customer who was in a growing industry at the time. Firm Two, on the other hand, is classified as a growth firm. The business has experienced rapid growth since the owner-manager took over. This growth was the result of the business's development into international markets and a focus on innovation.

The owner-managers of these two firms have very different backgrounds: Firm One's owner had no manufacturing or business ownership experience prior to buying the business and he had no interest in becoming involved in other businesses. The business was a lifestyle choice for the owner; it provided him with a new challenge, whilst still retaining a reasonable income. For him, "*growth means hassles*", which he does not want. He does not want growth beyond what is

necessary to continue the business at its current level, and to reduce their dependence one or two key customers. Firm Two's owner-manager, in contrast, has been a CEO of various manufacturing businesses and is currently active in several other manufacturing companies and industry associations. He enjoys operating a growing company and "*would get bored if the company wasn't growing*". What these two firms have in common though is that both of the owner-managers had borrowed to buy into the businesses, and thus required some growth to fund their borrowings. However, despite this incentive, Firm Two's owner would have wanted to grow the business regardless.

To achieve this growth, Firm Two has pursued international markets by identifying additional companies that are of a similar nature to their current customers. They have approached such companies by email, stating that: "*it's pretty simple really*". Firm Two is a highly innovative company, which has received multiple industry awards, and pride themselves as "*comprehensive solution providers*". Further, research and development is considered the job of everyone in the firm. The owner-manager of Firm One considers exporting too expensive and perceives the business too small to operate on this level; he is happy with the current situation: "*we know our place*". While the firm will work with clients to help design a suitable product, they are not particularly innovative and do not pursue any research and development themselves. Furthermore, due to its small size, Firm One has little need for formal training systems: a new employee is trained informally with a "*hands-on*" approach. In contrast, Firm Two has extensive training and mentoring systems for employees and has established partnerships to further these systems.

### ***Pair B: Firm Three and Firm Four***

These two firms are from the metal manufacturing sector and differ significantly from each other. Firm Three is a third-generation family business, which has been in a steady period of

decline, dropping from 30 employees in 1994 to 16 employees in 2007. They have been “*hard hit*” by changes in the industry, such as an increase in imports, decline of other industries, and customer businesses relocating overseas. Firm Four, on the other hand, is a relatively young firm that was founded by the interviewee; it has experienced the most rapid growth out of all of the firms in this research, increasing from five employees in 1994 to a hundred in 2007. Firm Four has increasingly engaged in international markets; it has received media attention for its high innovation. The company is now developing and producing their own new products.

The current owner of Firm Three is youngest in the sample and is a qualified engineer. This owner-manager has a strong dislike for the administrative and accounting side of business management. He is happier now that the company is a smaller size, for he can work more in the factory and staffing issues have been reduced. Furthermore, this interviewee had a pessimistic view of operating a business and the external environment: he tended to see past and present threats to the business as insurmountable and had put little effort in adapting the business. In stark contrast, Firm Four’s owner is an opportunist, who “*sees opportunities everywhere*”. Firm Four also offers significant staff training and has recently created mentoring programmes. Very little has been done, however, in Firm Three in regards to training and development or research and development. This firm tended to be more reactive and pessimistic, compared with Firm Four.

### ***Pair C: Firm Five and Firm Six***

These two legal firms were also significantly different from one another. Firm Five is a traditional legal firm, established over a hundred years ago, with long-standing clients and a solid reputation. After a period of steady growth, this firm’s growth path was interrupted by a partnership breakup and it has plateaued ever since. They managed to rebuild the business since the break-up, but they have few solid prospects or plans for growth in the future. In stark

contrast, Firm Six was founded by the interviewee just over 20 years ago; the focus has been on specialised high-value and unconventional niches. Their original niche disappeared suddenly after the stock market crash in the late 1980s. This led to a significant retrenchment period in which 14 people were made redundant. The company stabilised from this decline in the mid 1990s and have since averaged around ten permanent employees.

Firm Five's strategy is to focus on doing a good job, achieving good results for their clients, and using word-of-mouth to bring in new work. The interviewee has been with the firm for over 30 years. In contrast, Firm Six takes a strategic approach to marketing and practising law, which is unique within the legal industry. This resulted from the owner-manager's interest in business strategy and marketing topics, and his background that is atypical of lawyers. Their new niche has proven to be a fruitful area and, subsequently, they often outsource a lot of work to deal with the peaks that are characteristic of their current niche. This is the reason why Firm Six was re-classified as the growth firm in this pair and Firm Five was re-classified as the non-growth firm. This highlights one of the problems in using employment figures as the only measure of firm growth: additional factors that arose during the course of the interviews were taken into careful consideration in regards to the growth paths and classifications. None of the other firms in this research showed a significant amount of outsourcing.

#### ***Pair D: Firm Seven and Firm Eight***

Firm Seven and Eight are both well-established accounting businesses, founded in the 1930s and the 1960s respectively. Firm Sevens' growth path slowly declined between 1994 and 2007. The company prides itself as providing "*grass-roots accounting services*": they are not "*flash Harrys*". They focus on doing good work in an efficient manner for their long-standing key client. Their major problem over the period in question has been in the employment of skilled staff. In contrast, after flat-lining for the first eight years of the period under study, Firm Eight's

growth path has been increasing since 2001, from 18 to 25 employees. This growth largely occurred because of the addition of some large and profitable business clients. Firm Eight endeavours to enact a “*high growth strategy*” and takes an innovative approach to their service offerings. They perform a wide array of accounting services and see themselves as the accounting industry’s version of a health service’s general practitioners.

Both of the owner-managers had been with their respective firms for 35 years. Firm Eight’s owner-manager has also been involved in founding and chairing other businesses; Firm Seven’s owner-manager did not have such experience. Firm Eight also explored a variety of partnerships and mergers to enhance their offerings, including being a part of an international association. Both firms took an active approach in the training and development of their employees in order to keep pace with industry changes.

## **5.2 Cross-Industry Analysis**

As expected, there were some obvious differences between the two industries, manufacturing and professional and business services. This became apparent in the case studies. The differences are important to note as they affect the operating environments of the businesses and also provide context to their development. The differences include the impact of globalisation, levels of industry regulations, and the general complexity and uncertainty present in each industry. There was also variation between the two industries regarding the factors espoused as restricting their growth.

The manufacturing firms spoke frequently of globalisation issues. The firms in this industry appeared more affected by international markets, imports and global trends relative to the firms in the services industry. The manufacturing industry has been hard hit by the increase in imports over the last two decades and the overseas relocation of a number of manufacturing businesses

whom they had supplied and worked with. The rate of change in the manufacturing industry appeared to have been increasing over the 1994 to 2007 period, and it now operates with high levels of uncertainty and ambiguity. For example, less customer loyalty is perceived now as cheaper overseas manufacturers, typically from Asia, can be easily accessed. As one owner-manager described, “*there is a sort of a throw-away mentality*” now amongst customers brought on by the influx of cheap Asian imports. All of the manufacturing firms considered themselves in declining industry and openly wondered how much longer the manufacturing industry in New Zealand would be in existence. All of the manufacturing firms are continuing to lose their traditional customer base. As one interviewee explained, “*to stand still in business is to go backwards*” and “*it wasn’t always that way*”.

In contrast, in the professional and business services industry there seemed to be a less pronounced level of movement or change in the industry over the period. The firms seemed better able to maintain the status quo for longer periods of time, if they so wished. This is evident in the growth paths of the firms: the services firms tended to have more plateaued periods and less rapid phases of growth and decline than the manufacturing firms. For example, the services firms’ sizes ranged from ten to 30 employees, whereas the range amongst the manufacturing firms was three to 100 employees. Yet all of the businesses were of similar sizes at one point in time over this time-frame. The reason for this may be that the services industry is more regulated than the manufacturing industry; it is controlled by both government and industry regulations (that is, the New Zealand Law Society and the New Zealand Institute of Chartered Accountants). For example, some regulations included certain company structure requirements and past fee charging directives. Industry rules and regulations generally serve to reduce the levels of uncertainty and ambiguity present in an industry.

Discussions regarding the factors restricting firms’ growth paths elicited distinctly different responses from the firms in each industry. Most of the manufacturing firms asserted that their

growth was restricted by personal matters such as individual choice, personality or lifestyle preferences. For example, one interviewee did not like assuming risks; hence, he had decided not to attempt to grow the business or to invest in much machinery. Another had decided that they did not want to grow the company anymore as they were nearing retirement: "*I am holding that back because I am at a stage in life where I don't want the hassles*". However, amongst the professional and business services firms it was the quality and quantity of available personnel and premises that were consistently cited as restricting growth. All four of the services firms responded that it was a lack of staff that had been restricting their growth path, and three of the four also cited a lack of space. The migration of educated and experienced New Zealanders overseas has contributed to the staffing problem for these firms. Moreover, many of the interviewees described a "catch-22" situation of needing to hire more staff before they could take on further work, but needing further work before they could justify employing more people. The availability of skilled personnel was also an issue for the manufacturing firms; however, since they generally require less qualified personnel, they had managed to largely address this problem by training and importing staff.

Both of these industries have experienced a significant level of change since the early 1990s. This began with, and can in some cases be attributed to, the considerable government reforms in the mid 1980s (for further information refer to Hamilton & English, 1997; Hamilton & Dana, 2003). Overall, the industries both expressed similar issues and concerns, including increased globalisation, heightened customer or client demands, problems finding qualified staff, and a lack of quality national training and education systems. What differed significantly was the magnitude of the impact these factors had on the two industries. The manufacturing industry was greatly affected by government reforms and the globalisation of business; the services firms appeared more insulated from these matters. The professional and business services industry, however, was greatly affected by the increased international mobility of educated and experienced people.

### **5.3 Cross-Growth Classifications Analysis**

The greatest disparities were evident between the two overall growth classification groups, that is, the non-growth and growth firms. Differences were apparent in a range of factors including the strategic awareness, ambitions and optimism of the owner-managers. The strength of their professional networks and strategies or tactics enacted upon also differed. These differences will be briefly outlined in this section and described more fully in the subsequent section.

Owner-managers of the four growth firms generally had a better understanding of strategy related issues and tended to be much more proactive. They spoke more positively and frequently in terms of opportunities for growth, past and present. All four discussed their firm's strategic intent to be innovative, creative and flexible, whereas the non-growth firms tended to describe their strategy as completing good solid work and maintaining relationships with key clients. The owner-managers of the non-growth firms tended to focus on maintaining the business in order to provide them with their accustomed lifestyle and income; they largely maintained the status quo. In contrast, the owner-managers of the growth firms were explicit in their preferences or ambitions for operating successful and growing businesses. Further, these owner-managers had greater concerns for the performance and competitiveness of the New Zealand economy than the owner-managers of non-growth firms.

All of the growth firm's owner-managers were involved in multiple business ventures; in contrast, none of the non-growth firm's owners were. Subsequently, the growth firms had stronger private business networks than the non-growth firms, despite being the four youngest out of the eight firms. In regards to networks, all eight firms considered reputation to be crucial. The growth firms were also more adept in training and development, including mentoring, and research and development.

The owner-managers of the growth firms differed the most from the owner-managers of the non-growth firms in their growth ambitions and in their level of optimistic and opportunistic strategic thinking. All of which were high in the growth firms and significantly lacking in the non-growth firms. The growth firms tended to be more adaptable, proactive and innovative, particularly towards international market opportunities. They saw opportunities even in declining and uncertain markets, whereas the non-growth firms did not and tended to describe themselves as “*plodding along*”. Due to the strength of the contrasts between these two growth groups relative to the other analysis groups and the objectives of this research, the next section concerning the overall themes of the cases studies will predominately draw on and further highlight the distinctions between the growth and non-growth firms.

## **5.4 Main Themes**

Analyses conducted with the assistance of the qualitative data analysis software, NVivo 8, led to the emergence of four major themes from the case studies: owner-managers’ ambitions; innovation and flexibility; professional networks; and perceived external environment. These themes are significant in explaining the growth successes or weaknesses of the small businesses in this research.

### ***Theme One: Owner-managers’ Ambitions and Growth***

The most prominent theme to emerge was how the owner-managers’ ambitions for growth impacted on the firm’s growth path. This theme encompasses not only the choice of whether to grow or not, but also actually setting and controlling the rate of growth and the rate of decline in accordance to the owner-manager’s ambitions and capabilities. Each owner’s ambitions and its relationship with the firms’ growth will be explained in this section.

Many of the manufacturing firms spoke clearly of controlling their firms' growth to a level in which it met their needs and abilities, be it financial, intellectual, or personal. Firm Ones' owner did not want to grow the firm too fast nor significantly increase its size. For him, growth was about getting the firm to a level where it was relatively stable and could provide at least the equivalent income that he was receiving prior to owning the business. His growth ambitions were therefore aimed at taking on enough new business to ensure that if they lost any of their key customers, due to the natural movement of business, they would still have enough work to keep them going for a while. This attitude was reflected in their growth path as the firm employed two more people, which enabled the owner to partially retire, and the business has since plateaued. Firm Two is a good illustration of the effect an owners' ambitions can have on growth as before the interviewee bought the business it had experienced little growth for many years. The interviewee explained that this was because the former owner of the business regarded the firm as "*providing a very good lifestyle. He didn't have any debt, and growth only meant headaches. And why would he want more? So I bought into that environment*". However, the current owner of Firm Two was highly growth motivated, stating that: "*I'm used to running high growth companies. I was going to get bored if it didn't grow*". Since he has taken over the business it has grown rapidly. Yet the firm's high growth was not sought to the detriment of the company. The owner-manager had been controlling its growth rate:

*"I was controlling the rate of growth to 25% because I thought that was the maximum we could do without losing our culture, without losing the quality of what we deliver. So it worked out roughly 25% was where we could maintain that. We could train the people that fast. We could make sure the quality stayed up if it was 25%, so we controlled the growth to that which meant walking away from a few opportunities. It meant once we identified markets we might only take one or two competitors in that market or one even, or we might see technology applied to three markets and we would only apply it to one, because we could not really afford to grow any faster."*

He sought to control the rate of growth to the maximum in which he perceived the company could sustainably grow, whilst still maintaining their culture of innovation, flexibility and customer service.

Firm Three is in stark contrast: the current owner-manager expressed little desire or inclination towards wanting to operate a business let alone grow it. Firm Three is a third-generation family business, which the interviewee felt obligated to run. Under his leadership, the firm has dropped from 30 employees to 10; however, now that the firm is at his preferred size, he intends to maintain it there. Finally, in the manufacturing group, Firm Four has achieved the most rapid growth of all the businesses. The owner of this firm is highly ambitious and enjoys operating successful and productive businesses. However, this owner is approaching retirement and is now at a stage in his life where he is "*in a consolidation mode*". This is why the business's growth path has begun to plateau. He openly admits that he is restricting the company's growth and that it needs a new, younger leader.

In the services firms, the interviewees' ambitions were less pronounced, but they were still clearly a key factor. The non-growth services firms, Firm Five and Seven, had little clarity regarding the achievement of past growth or their potential future growth. Their growth ambitions tended to be more passive. This is evident by the following response regarding past growth opportunities: "*There were some areas that we did think about growing into, but did not, and yes, there were a couple that we've toyed with, but didn't do*". Both of their ambitions were aimed at providing their clients with good, solid and efficient work: "*We just try and do a good job. You can't do much more*". Their growth paths reflected this attitude with fairly consistent performance over the period.

Firm Six and Eight, on the other hand, had great satisfaction in solving complex problems in their work and creating new ways to offer better service to their clients. Similar to the two

growth firms from the manufacturing industry, they both perceived themselves as comprehensive solution providers: “*So, my job is not just ‘Lawyer’. It’s almost a PR, lobbyist, Mr Fix it*”. Although their methods differed, they also both spoke of planning and targeting growth, which both had achieved during the period under study. This often involved strategies or approaches to growth that were more modern than their counterparts. For example, when asked about the benefits of owning their own business, one of these owners replied:

*“To be able to do things which are perceived by others to be innovative or very different or to achieve outcomes in circumstances where other law firms plainly couldn’t, that is particularly satisfying. So, there’s a little bit of ego I suppose behind those sorts of things, but I’m just intrigued by new challenges, and my business has evolved into a very unusual area.”*

In contrast to the non-growth firms, these two firms wanted to be seen in their industries as highly innovative and growing businesses.

Within these eight businesses, the biggest factor impacting on the firm’s growth were the ambitions of their respective owner-managers. These owner-managers conveyed a partial and sometimes unconscious, ability to control the rate of their firm’s growth, which could be in a positive, neutral or negative direction. Overall, the ambitions of the owner-managers of the four non-growth firms were orientated towards providing themselves with an income and their desired lifestyle. Support for this can be seen in Appendix G, which presents a matrix query of coding for the growth and non-growth firms and the owner’s growth intention: ‘growth seekers’, ‘passive intentions’ and ‘growth avoiders’. The non-growth firms were coded as most commonly passive in regards to growth. For them, “*growth means hassles*” and they “*needed that like I need a hole in my head*”. In contrast, the ambitions of the owner-managers from the four growth firms were directly related to achieving growth, whilst doing something innovative and

challenging that was beneficial to their clients. Appendix G also indicates that the intentions of growth firms' owners were most commonly orientated towards growth. Interestingly, this coding query suggests that both the growth and non-growth firms spoke relatively equally of avoiding growth. Upon further exploration, this was found to be due to the growth firms controlling their growth rates by declining some opportunities.

### ***Theme Two: Culture of Innovation and Flexibility***

There was a clear distinction between the growth and non-growth firms in this research in regards to their levels of innovation and flexibility. A positive relationship appeared to exist between the growth paths and these factors: all of the growth firms had a culture characterised by innovation and flexibility, especially the two high growth firms, whereas the non-growth firms showed little. *Innovation* generally refers to new way of doing things, and is commonly associated with new products or processes. *Flexibility* refers to agile approaches to products, product markets and customer services. These characteristics underpinned the growth firm's activities such as research and development, training and development of employees, and the utilisation of technology. The variances in coding of the growth and non-firm's interviews regarding these factors can be viewed in Appendix G.

These two growth firms in the manufacturing industry, Firm Two and Four, had cultures which reflected high innovation and flexibility. The firms exhibited high tech innovation: one had received numerous industry awards for their innovative products and the other had received media attention for theirs. These firms explained that:

*"You must remain creative and innovative. If there is no creativity in your organisation, it doesn't matter where it is found, you have got to be creative and innovative. If you're*

*not you become like everybody else and your margin will disappear and what you do will just become a commodity and there will be no margin.”*

These two firms believed that research and development was a function of everybody's job in the business, and was creative in discovering new markets in which their products could be sold or adapted for. Both of these manufacturing growth firms also spoke of their “*concept-to-cash*” systems and described themselves as “*comprehensive solution providers*”: “*We're very good at taking the project from concept to cash in a very short period of time*”. The firms were now producing their own concept products: “*we had to become adequately innovative where we build complete products*”.

Furthermore, both firms confirmed that their competitive advantage was their creativity and flexibility: “*what differentiates us is our flexibility, our willingness to give everything a go and back ourselves to get the right combinations of the latest technology to work*”. The owner-manager of one of these firms explained:

*“our strategy is to remain very light footed and to reinvent ourselves on a three to four year turnaround basis. If you were to take snapshots of [the company] every three or four years we are an entirely different company. We have just moved on. You need to remain highly entrepreneurial or highly flexible to survive in the current climate”.*

In contrast, in the non-growth manufacturing firm's One and Three product innovations were usually slight adaptations as requested by clients, and any more significant design projects often resulted in significant losses for the business:

*“He just comes in. He says ‘can you make a storage device that holds this?’ So you go and spend a lot of time developing something and making it up, prototypes and all that,*

*and by the time you do you never recoup all that. You never recoup the money because there's never the market there to sell them into. It's too small. So I mean you do need that, but you never make any money out of it because the numbers aren't there."*

No research and development were otherwise carried out in these two firms. When questioned about the importance of innovation one replied: "Yes, but we can't drive it. We can't drive it. That's where the government can sharpen up and be flexible and drive other products". Interestingly, one of the professional and business services growth firms commented that: "but I feel that there is sort of an expectation of the State doing so much [regarding innovation] and that it concerns me because the State can't"; the private sector must be leading research development. Furthermore, the non-growth manufacturing firms tended to describe their culture as a "family environment" and, while they were "nimble" due to their small size, they showed little adaptability to changes in the environment.

The professional and business services firms were obviously not so innovative in the technical sense, but the two growth businesses were innovative with their processes, approaches to clients and markets, and business models. The owner-managers of the growth firms frequently expressed their innovation, providing examples of creative customer solutions, successful new market approaches, and new approaches to service offerings. One owner-manager claimed, "To be able to do things which are perceived by others to be innovative or very different or to achieve outcomes in circumstances where other law firms plainly couldn't, that is particularly satisfying", and when describing himself said, "I do have a blue sky approach. I probably am a bit of a lateral thinker. We do come up with some pretty innovative solutions at times". However, the other two interviewees from the two non-growth services firms laid no such claims. They typically described their culture as one of "honesty, integrity and independence" and "of rolling your sleeves up and getting the job done, and not sweating the small stuff, and

*delegating the small stuff*”. They also openly admitted to being slow and lacking when it came to technology and innovation.

Higher levels of internet sophistication and e-commerce were also generally found in all four of the growth firms. One of the growth firms stated,

*“We’ve sort of veered towards this information technology type thing which is fantastic. I use a computer when I need information and I use it frequently and the whole thing, but it’s only a tool, and knowledge without wisdom is absolutely useless”.*

The internet was used in the four growth firms to obtain new customers, nationally and internationally, to source training information on the latest technological advances, and as a marketing tool. For example, in regards to computer systems one of the growth firms from the services industry stated that: “*along the way we’ve tried to keep pretty leading edge, I guess, in terms of the computer side of it. I do think technology can be a huge boost*”. This firm has also had a regularly updated webpage. In contrast, all of the non-growth firms had little or no internet presence. One services firm claimed: “*it would be fair to say that we are fairly slow adopters of that. .... We tend to be a bit slow picking those things up. We like to see it being tried and tested in the market place first*”. Furthermore, in Firm Two, which had experienced significant decline, computerisation of operating systems was enacted ad hoc by a factory worker who enjoyed creating spreadsheets: “*The guy in the workshop he did a spreadsheet at home, so we just punch it all, and bang! It spits them all out*”.

The owners from the growth firms spoke of using training and mentoring of employees to ensure their culture of innovation and flexibility was consistent throughout the business, especially when adding new employees. As one interviewee described: “*Every company has a culture and ours is about being flexible and being innovative, and providing high quality and putting the*

*customers' needs ahead of anyone else's. And so the key thing through that period [of high growth] was mentoring".* Thus, training and development of employees appeared interrelated with maintaining innovative and flexible cultures within the growth firms, whereas the non-growth firms were comparatively less involved in training and staff development and placed less strategic emphasis on innovation and flexibility.

### ***Theme Three: Extensive Private Business Networks***

In this research, networking was important to all of the businesses; however, the degree and the type of networks varied significantly between the growth and non-growth firms. The owner-managers of the growth businesses were highly networked individuals, who emphasised how important networks were to the success of their businesses. The networks that were the most important were their private business networks, which were largely formed and developed through their involvements in multiple businesses. The non-growth firms expressed little desire for networking beyond the basic, necessary networks formed as part of the natural course of conducting business. The typical industry associations, which are largely focused on networking, were found to be distinctly less important to most of the businesses in this research.

The non-growth manufacturing firms, Firm One and Three, expressed minimal interest in networking. Firm One relies on a cluster of local commercial businesses in which they have developed trust over time: "*So all these people are out there and you get in that web of them. You get into a big field that actually all links because you all sort of do a bit of work for them, who does work for them and so forth*". Beyond this local cluster, the owner-manager had little interest in networking seeing them as irrelevant to his line of work. Firm Three has no such cluster and has no time for networking, especially with industry associations whom he also believes are out of touch: "*We used to be, but we always sort of had issues with... they didn't seem that persistent in pursuing what was happening in the country. I actually said to them a*

*long, long time ago you're going to have to change your name because there won't be any manufacturers left here".* With regards to these formal industry networks, Firm Four's interviewee also stated: "*And I learnt quite early in life if you intermingle with all those trade groups, dare I say it, it's not much of an advertisement for those guys, but they're just a bunch of 'Wallys' that soak in their own misery. You go to their meetings and all you hear is bad news on all sides. And I decided years and years ago that I don't want to hear about. I don't want to go there. I've got no interest in it. It tended to breed negativity*". Overall, three of the four manufacturing firms expressed little interest in these formal public networks, such as, manufacturing or industry associations. Only one of the firms was a proponent of their industry association, which they had previously run.

The owner-managers of the growth manufacturing firms, Firm Two and Four, were both portfolio entrepreneurs, with a diverse range of business interests. They subsequently had strong professional networks. Firm Two was the strongest advocate for all types of business networks. This firm had partnered with other businesses to manufacture innovative products and processes, develop international markets, and establish training facilities for employees. For example, he stated: "*so we form consortia where we think we need a combination of skill sets to be attractive on an international market basis*", and that "*we can only compete on being clever and we are not big enough, any of us, to be clever on our own, we have got to be clever together*". This was the reason why he was involved in so many networks, both formal and informal, public and private.

The professional and business services firms were slightly different due to industry regulations requiring certain work done for a client is not conducted by the same company and also mandatory industry associations, such regulations were present in the both the legal and accountancy industries. This resulted in the establishment of a number of working relationships between similar firms, and between complementary legal and accounting businesses, frequently

labelled “friendly firms”. Also apparent in the services firms was that informal networks based on personal interests (for example, fishing or horse racing) tended to evolve into areas of individual specialities. This resulted in further referrals in the field as reputations were established. For example, Firm Fives’ explanation towards networking was: “*So I guess I do it mainly because of an interest that I have in those fields. But one thing does tend to lead to another and it’s just amazing how that contact might lead to work in one sort or another*”.

For the two non-growth firms in this sector, Firm Five and Seven, these necessary associations and interest-based networks were largely the extent of their networking and the owners were reluctant to engage in any further networks. They sought to “*keep a divorce between work and social*”, and perceived networking as impinging on their personal lives. Firm Six and Eight, however, were heavily involved in networking; had additional business involvements, ranging from chairing committees to founding new organisations. Firm Six especially attributes much of their success to their professional networks: “*You can’t get that [success] out of anything other than experience and networks and thinking about it strategically*”. However, similar to the manufacturing firms, the additional public networks were not considered important. For example, one interviewee stated: “*I don’t find at this stage now that those networks are particularly important*”, suggesting that they may only be useful if you are new to the profession.

Overall, all of the firms’ owner-managers emphasised the importance of networks. This was more pronounced in the growth firms than the non-growth firms. In particular, private business networks were considered vital to the success of the growth businesses. These networks enabled firms to get things done when needed, were a source of referrals, provided new knowledge and learning, and opened up new product and service possibilities and market opportunities. Furthermore, formal industry networks, which are arguably the most obvious networks for small businesses to be a part of, were found to be surprisingly unimportant.

#### ***Theme Four: Perceptions of the External Environment***

When the owner-managers were discussing their business's external environments, there were two distinct tones or perspectives. The owners of the growth firms tended to have more opportunistic and proactive perspectives, whereas the owners from the non-growth firms had a more pessimistic and reactive orientation. Where the non-growth firms perceived threats, the growth firms saw opportunities. These differences were apparent even when they came from similar industries and sectors and therefore subject to similar external conditions and changes.

The New Zealand manufacturing industry has radically changed over the last two decades; the owner-managers were all aware of this. Changes discussed included the reduction in trade tariffs and the subsequent increase in imports, escalating international competition, technological advancements, and the increased complexity and speed of the markets. As one interviewee stated, “*Your opposition used to be Christchurch. Your opposition is now the whole country and overseas*”. All four manufacturing firms recognised that they were in a declining industry. However, the non-growth firms took this belief further, heralding their time was running out and there was probably no future for manufacturing in New Zealand. The growth firms, on the other hand, whilst acknowledging the bleak future for manufacturers, believed that there was a future for New Zealand manufacturing in niche markets providing high quality and innovative products. For example, one interviewee said: “*If we do innovative, clever things that aren't huge [in regards to the physical size of the product], we can export them to niche markets all round the place*”. The growth firms took a more opportunistic view of their environment and were able to recognise and capitalise on a number of profitable opportunities. Firm Four frequently spoke of past and future opportunities; some that they had created, several that they had accepted, and a few that they had decided not to capitalise on for now. The owner of Firm Four firmly believed that, even in a declining industry or economy, there “*is always opportunity. Every negative vision has a series of opportunities. We currently have a landscape in front of us that is almost*

*infinite*". This belief underpinned the company's "core philosophy". In contrast, Firm Three's owner stated, "*So we'll just sort of plod along like we are and do whatever comes, if any opportunities come along... and if any opportunities come. ... So you never know what's going to happen*". Their approach was much more nonchalant and pessimistic.

The manufacturing firms' negative and/or positive perspectives were also apparent in their approach to exporting. The non-growth firms believed that exporting was too expensive and they simply could not compete with international firms: "*We used to export to Australia, but it's too expensive now for what they are and all the imports*". In contrast, the growth firms were successfully engaging in exporting activities, having found ways around both of these issues, such the networking and partnerships discussed in theme three. For example, "*we grew quite fast as a result of that [expansion into international markets]. So we went from relatively little in the way of exports to 50% export in two years*".

The professional and business services industry has also experienced significant changes in their external environment over the past two decades, although it has arguably been less severe than in the manufacturing industry. Owner-managers discussed changes including increased regulations and customer demands; the movement of businesses north (that is, to the larger cities of Auckland and Wellington) and people overseas; technological and industry development. Issues surrounding globalisation, which had greatly impacted the manufacturing firms, were predominately problematic for the services firms in terms of the migration of people from New Zealand. In particular, experienced and university-educated people "*hike off to good jobs in London .... Lots of jobs in Australia .... Other [international] firms see us as a recruitment base*", and "*all our good Kiwis are actually working overseas. We're losing them*". This affected all of the professional and business services firms; however, these changes were dealt with more positively and proactively by the two growth firms, Firm Six and Eight. They recognised and acted upon opportunities to acquire and train personnel. This included bringing in students and

foreigners. These two firms had also established global partnerships and were quicker to adopt new technologies. In contrast, the two non-growth firms, Firm Five and Seven, spoke negatively about changes in the industry and were generally more reactive to changes that had occurred. Describing how the industry has changed Firm Seven's owner stated, "*it has just become more stressful ... clients are becoming more demanding .... [and] there has been an increase in compliance right across the board really*". However, one of the growth firms described how the industry has changed for better; shifting away from the "*gentleman practices*" or "*old boys networks*" that were "*still prevalent through the 1990s, but thank god it's gone. ... I think we cater better for families, the profession, which it didn't before*".

Overall, the four growth firms in this research were found to be more proactive and opportunistic regarding their external environment over the period, whereas the four non-growth firms were found to be more reactive and pessimistic. The differences between these firms were the ability to recognise and respond to changes in their environment and to opportunities in declining and increasingly competitive industries. That is not to say, however, that the adverse changes in the operating environments of these growth firms had not adversely impacted on them, for they clearly had but, because they were more optimistic and proactive, they had found or created new opportunities, while the non-growth firms were nonchalant and slow to react.

## 5.5 Conclusion

While there were certain peculiarities to each of the firms, sectors and industries involved in this research, the strongest distinctions emerged between the growth and non-growth businesses. In each of these case studies, a firm's strength or weakness in the following factors determined the direction, slope and turning points of their growth paths: owner-manager's growth ambitions, culture of innovation and flexibility, professional networks, and proactive and opportunistic perceptions of the external environment.

To illustrate, all of the owner-managers from the growth firms were involved in multiple business ventures, which resulted in extensive private business networks that were considered vital to their firm's development. In contrast, none of the owner-managers from non-growth firms were actively involved in other organisations and, whilst their networks were still vital, they appeared to be much smaller and less diverse. All four of the growth firms were highly innovative and prided themselves on their flexibility. The non-growth firms, however, were more internally focused on the provision of efficient work for their key customers. The owner-managers of the growth firms were found to be more ambitious towards achieving growth and, coupled with these growth ambitions, had a generally more optimistic disposition which enabled them to find and exploit opportunities that other firms overlooked. Moreover, this was not a matter of "growth-for-growth's-sake", the rate of growth, and even the rate of decline, was often controlled by the owner-managers. The owners of the growth firms also managed to find ways to address shortages of personnel and physical resources, which were perceived to be significantly restricting the non-growth firms.

The factors discussed here seem to have become increasingly important to these firms over the 1994 to 2007 time period. This was largely attributed by the owner-managers to the increasingly globalised economy and New Zealand's positioning in the global market. The findings presented in this chapter are discussed in more depth in the following chapter.

## **6. CHAPTER SIX: DISCUSSION**

In this chapter, the findings from the two preceding chapters are analysed further in direct relation to the research objectives and the literature presented in Chapter Two. The objective of this research was to uncover the underlying causes of growth and non-growth paths over extended periods of time, which incorporates growth, plateaux and decline phases and fluctuations. Another aim was to further develop the emergent literature on organisational learning and growth paths. To achieve this, the themes presented in Chapter Five are analysed further. These themes were owner-managers' growth ambitions; culture of innovation and flexibility; extensive professional networks; and perceived external environment. Concepts within the organisational learning literature underpin these themes, and will be discussed throughout the chapter. As mentioned earlier, the most pronounced contrasts were exhibited between the two overall growth groups: growth and non-growth. Therefore, the following discussion will predominately focus on these two groups and each theme will be further illustrated by one pair of firms to provide in-depth and contrasting stories.

### **6.1 Theme One: Owner-managers' ambitions and growth**

The owner-managers' ambitions towards operating and growing their firms were found to be one of the most important factors influencing a firm's growth path. This involves not only the decision of whether they wanted to grow the business or not, but also the appropriateness of the *rate* of growth or decline. This seems fairly obvious but is something that is often overlooked in the study of growth, particularly in the literature that focuses on 'growth factors' and learning systems. However, the close relationship between small business owners and their firms is well recognised: some business owners often view the business as an extension of their own self-image and ego (Fuller-Love, 2006). Ucbasaran et al. (2006) accurately explained that "the entrepreneur may be the key resources of the organisation (or a key constraint)" (p. 17), both of

which were found in these cases. Cooney and Malien (2004) also claimed that the mindset of the entrepreneur would undoubtedly be a major factor influencing targeting and achieving growth, and Vinnell and Hamilton's (1999) model reflected this with the self-image of the founder/owner being at the heart of the model. This included their motivations and aspirations. This theme is illustrated briefly with Firm One and Two. It also includes additional issues such as, expectations of growth consequences, portfolio entrepreneurs, industry differences, and family businesses.

Firm one was a small, modest business which, for the most part, had remained steady across the time period. The owner's ambitions for the business were for it to provide fresh challenge and a modest income. This is compatible with Dalley and Hamilton's (2000) 'lifestyler' category of business owners who are motivated by independence and personal growth, not by wealth. The category of the 'professionals' corresponds with Firm Two's owner-manager: the 'professionals' are motivated by the advancement and acknowledgements that come with operating successful businesses. Firm Two's interviewee was ambitious, enjoyed a challenge and the status acquired through operating multiple high growth companies. Furthermore, prior to the interviewee acquiring Firm Two, the business had plateaued. This was because the previous owners were not motivated to grow the business, for it was already providing them with their desired lifestyles. These owners also match the 'lifestyler' description. In this case, the change of leadership from a 'lifestyler' to a 'professional' resulted in a substantial turnaround in the firm's performance. This illustrates how crucial the owner-manager is in regards to the direction and performance of small businesses. The ambitions of the owner-managers seemed to serve as a prerequisite to the direction of a firm's growth path. These findings are similar to the longitudinal study by Smallbone et al. (1995) that found the growth orientated motivations of the owners of high growth business to be a key factor. However, their research examined motivations which the literature defines differently from ambitions.

Not only was the direction of growth influenced, but also the rate of growth. For example, in Firm Two's period of high growth, the owner restricted the growth rate to a maximum of 25% per annum. The rate of growth needed to be held at an appropriate rate given a firm's resource endowments and management capabilities (Penrose, 1968). Interestingly, much of the growth came about through the firm's increasing internationalisation. Chetty and Campbell-Hunt (2003) found that when firms experience rapid success in internationalising, "they have to manage the speed of this internationalization in order to balance the configuration of the firm", as resources are scarce. This aptly characterised the growth firms in this research; needing to manage the speed of their growth to ensure the firm remained balanced appropriately. This appeared to be less relevant to the services firms, as internationalising was not as important to their growth.

Furthermore, a crucial aspect of a firm's resources is what is commonly referred to as 'human capital' or 'managerial capabilities' (Wiklund & Shephard, 2003). Human capital includes the managerial and entrepreneurial experience of a business owner (Ucbasaran et al., 2006). Penrose (1968) believed that these managerial resources were crucial to the growth and survival of small firms. Therefore, according to the literature, 25% was the maximum growth that Firm Two had the managerial resources to effectively manage. If the rate of growth was not controlled, difficulties could arise that can cause the business to falter (Garnsey & Heffernan, 2005). The owner of Firm Two was, therefore, acting on what Penrose (1968) called the 'subjective productive opportunity' that was available to the firm at that time; that is, the perceived ability of the firm to capitalise on growth opportunities, without detrimentally over stretching or unbalancing the firm. Wiklund et al. (2003) found that "many small business managers deliberately refrain from exploiting opportunities to expand their firms" (p. 247). All of the firms involved in this research were found to have refrained from exploiting opportunities for growth at some point in time.

Some authors have also found owner's expectations of the consequences of growth to influence the growth and performance of small firms (Wiklund et al., 2003). However, in this research all of the owner-managers spoke strongly of the "*hassles*" surrounding growth; that is, the issues involved with growing a business and the difficulties of then running a larger company. This was found regardless of their growth ambitions and achievements, suggesting perhaps that individual's expectations of the consequences of growth are overcome by their ambitions for growth. Moreover, Wiklund et al. (2003) found that the most important determinant of business managers' attitude towards growth was their expectations of the impact that growth would have on the employees. This was not found to be a significant concern of the business owner-managers in these case studies. Their attitude towards growth appeared to be more focused on the expected impact that growth would have on their personal desired lifestyle and workload.

The owners of the growth and non-growth firms significantly differed in regards to their involvement in other organisations. As mentioned in the preceding chapter, all of the growth firms' owner-managers were portfolio entrepreneurs, whereas all of the non-growth firm's owner-managers were novice entrepreneurs. The literature suggests that these different types of entrepreneurs will have differing ambitions and motivations (Ucbasaran et al., 2006). This research supports the findings of Westhead et al. (2005), that portfolio entrepreneurs "are more likely to be driven by the opportunity recognition process or wealth creation, as well as seeking business growth" (p. 397), than the serial or novice entrepreneurs. Moreover, these novice entrepreneurs were so by choice and not because of their age: three of the four novice entrepreneurs were in their 60s.

Furthermore, the growth ambitions of the owner-managers were less pronounced in the professional and business services firms than in the manufacturing firms. This could be because most of the services firms had teams of partners who were in charge of operating the business, especially in regards to strategy and growth decisions. It is likely, therefore, that the

composition, dynamics and ambitions of that team will shape the growth path of the firm. As only the key partner was interviewed, little can be commented on regarding these issues.

There was one family business in the research, which raised interesting issues of ambition problems often found in family businesses. Firm Three was a third generation family business, an area which has had little research. However, researchers have found second-generation family members to “not necessary [be] intent on continuing the enterprise” (Edwards & Ram, 2006, p. 909), resulting in performance problems. This appears to accurately describe Firm Three: the owner-manager was unmotivated towards operating the business, but felt strong family obligation to manage the business.

The ambitions of the SMEs’ owner-managers were found to a key influence concerning the firms’ growth paths in these case studies. Ambitions were found to range from highly growth orientated to deliberately scaling down. It is important for businesses to control growth rates according to the firm’s available resources and managerial capabilities. This seems relatively obvious and is well recognised by some academics; however, much of the literature still assumes that all firms want to grow and underestimates the role of owner-managers of SMEs who can actually control growth rates, even in a negative direction. Due to their small size, SMEs are often considered by the literature to be at the ‘mercy of the market’ in regards to their growth and especially decline. This was not found to be the case in these firms. Morrison et al. (2003) rightly argued that intention, ability and opportunity are intrinsically linked, and that “business growth is unlikely to occur should one be missing or unduly weak” (p. 423). The human factor of the owner-manager is crucial in determining the effect that intentions, ability and opportunity have; it can enhance or inhibit growth.

## **6.2 Theme Two: Culture of Innovation and Flexibility**

In this research, the growth firms were found to be distinctively more innovative and flexible than the non-growth firms. The growth firms were highly adaptable and challenged the traditional views and practices characteristic of their industries more, relative to the non-growth firms who tended to be more conservative. Levels of inventiveness and flexibility were evident in the products, services, markets, strategies and tactics employed and adapted by the firms, and also their levels of e-commerce and internet sophistication. These two characteristics are commonly cited in the literature as important features of SMEs (Edwards & Ram, 2006). This is largely due to their ability to enhance competitiveness (Porter, 1990). Firm Three and Four illustrate this theme.

An exemplar of this theme is Firm Four, who had achieved the highest level of overall growth during the fourteen year period. This growth was achieved by being highly innovative and flexible and effectively re-inventing the company every three to four years. Firm Four now not only partners with other firms for research and development but also develops their own innovations. They began doing their own research and development because of the diminishing manufacturing industry: they quickly realised that they could not rely on their collaborations and business with other firms to continue. However, the firm's innovative approach was not without focus: the owner was conscious of not over-stretching the company and of not ignoring their core manufacturing base. These findings are akin Smallbone et al.'s (1995) claim that active product and market development and management are key factors that distinguish high growth firms from those that underperform and especially those that are in decline. Littunen and Tohmo (2003) also discovered that the "most successful firms were characterised by an ability to make changes in their production process to complement an active market strategy" (p. 197).

Firm Fours' owner-manager described their competitive advantage and business strategy as flexibility and innovation. The owner-manager explained that if a business is not creative and innovative, it becomes like every other firm, producing commodities, and margins will disappear. This correctly characterised what had happened to Firm Three. The firm was particularly low on these characteristics. Most product developments undertaken were typically slight adaptations in response to direct customer requests. Projects they had undertaken had led to significant losses. Firm Three had also failed to adapt to changes in the business environment. This firm had experienced the most significant decline over the period. These two cases illustrate a similar argument put forward by North et al. (2001), that a small business's flexibility is especially important due to higher levels of uncertainty in their external environment relative to larger organisations; thus, it requires responsiveness and adaptability. Furthermore, the precise organisational structure of an SME was found to be less important than the ability of the firm to adapt their structure as required to allow for growth.

Utilisation of e-commerce and internet sophistication are also related aspects of this theme concerning innovation and flexibility. As discussed earlier, commerce and internet sophistication were higher in the four growth firms relative to the non-growth firms: the growth firms were found to be faster to adopt new technologies. For example, Firm Three had no website or internet presence, did not engage in e-commerce, and systemisation was enacted by a staff member who had a penchant for making spreadsheets. Firm Four, however, had a higher level of technological sophistication. These features of SMEs are important capabilities and resources for growth; however, they are not often directly considered in growth studies; they are usually studied in isolation. Interestingly, Chaston et al. (2001) found that firms that were more heavily involved in internet technology were more likely to exhibit a double-loop learning style, compared with firms possessing a single-loop learning style who did not utilise internet technology as much. This reveals the differences in adaptability of the growth and non-growth firms.

Innovation and flexibility were found to be important with regards to products, markets and strategies. The growth firms, regardless of industry or sector, were distinctly more innovative and flexible than the non-growth firms. In the context of SMEs, the “emphasis on the diffusion and adoption of new knowledge and technology and the role of more incremental innovations in supporting competitiveness... is particularly relevant” (North et al., 2001, p. 303). Penrose (1968) also argued that versatility is an important characteristic to the growth process in SMEs. Inventiveness and adaptability were found to be embedded throughout the growing organisations as a part of their culture; they were not just the responsibility of a few people but involved everyone in the organisation.

### **6.3 Theme Three: Extensive professional networks**

SMEs are recognised in the literature as typically embedded in an assortment of networks that can take a range of forms, for example, geographic clusters, joint business ventures, industry associations, and networks with family and friends. As discussed in the previous chapter, networks were vital to all the businesses in this research. The growth firms, however, were more extensively networked than the non-growth firms. The most essential networks to these growth businesses were their professional networks, most of which were developed through their involvements in multiple organisations. That is, the growth firm's owner-managers were all portfolio entrepreneurs; the non-growth firm's owner-managers were not portfolio or serial entrepreneurs. This impacted greatly on the types and strengths of the business networks and the learning acquired from them. Networks are known to have a variety of tangible and intangible benefits (Street & Cameron, 2007). For these firms, some of the benefits included additional work for the business, collaboration with complementary businesses, increased information flows, enhanced human capital of the owners, and an important source of learning. Networks, and the associated benefits, enhanced the owner-manager's ability to recognise and exploit

opportunities for growth. Such benefits are explored more in this section. Firm Five and Six, from the legal services industry, illustrate this theme.

As mentioned earlier, all of the owner-managers of growth firms were portfolio entrepreneurs. This had positive spin-offs for these case study firms. For example, since establishing Firm Six, the owner had become involved in a variety of business interests, including shareholdings, CEO positions, and Chairperson roles in various industry associations. The subsequent networks led to further work business opportunities for Firm Six. Analogous to the argument of Westhead et al. (2005), the portfolio entrepreneurs in this research appeared to acquire more information and contacts over time, which led to an improvement in their ability to recognise and exploit growth opportunities. In contrast, the non-growth firm's owner-managers were not actively involved in other business ventures, and did not consider networking as vital as the growth firms did. For example, Firm Fives' owner believed there was a need for a certain distance with clients and perceived networking as encroaching on his personal life. The networks established by the non-growth firms tended to be more informal and ad hoc.

The strong private networks of the business owners of growth firms in this research also proved advantageous as they enabled them to form partnerships of mutual benefit that addressed areas of weakness. Street and Cameron (2007) found networks enabled access to complementary resources, for example, financial capital, referrals and contacts, research and development aid, and social support. The niche occupied by Firm Six demonstrates this, for they required international venture capitalists to enable them to assume the financial risk involved with in lengthy legal cases, which could take many years before receiving any payment. This type and amount of funding would be hard to find locally, so they developed relationships overseas. Inter-firm collaboration has been found to be increasingly important for research and development and internationalisation (Chetty & Campbell-Hunt, 2003; Thompson & Wright, 2005).

In addition, business networks were an important source of learning to the firms in this research. For example, one firm described how they used the internet to identify and approach similarly innovative companies; what they learn from those firms is then channelled back into the company. Ekanem and Smallbone (2007) argued that there is “strong evidence that successful owner-managers utilize networking activities to obtain key information that underpins learning” (p. 124). The strongest findings in the research by West III and Noel (2009) also suggested that “networking activity designed to infuse the venture frequently with new information is a strong predictor of performance” (p. 18).

An owner’s established networks are considered to be an important aspect of an entrepreneurs social or human capital, which is a “key organisational growth resource” (Macpherson & Holt, 2007, p. 180). Prior business experience and education are the two factors commonly studied as important aspects of an owner’s human capital (Westhead et al., 2005). These factors are considered to enhance human capital through the accumulation of skills and experience, enabling them to better discover and exploit new opportunities (Westhead et al., 2005; Wiklund & Shephard, 2003). Only prior experience and networking emerged as enhancing the owner-manager’s human capital in these case studies. Education was not an issue as all of the owner-managers were highly-educated, regardless of growth intentions or achievements. Moreover, in some cases, education appeared to restrict growth as individuals preferred to utilise their degree in the specific subject field rather than operate or grow the business. That is, they preferred “working in the business” and using their education, rather than “working on the business” and doing more managerial tasks. Macpherson and Holt (2007) argued that a network is “the manifestation of the entrepreneur’s social capital *and* environment” (P. 179), which co-evolve together. This illustrates the situated and complex nature of learning, which is over simplified by life-cycle of stages models in the literature (Macpherson & Holt, 2007).

Surprisingly, formal public networks, such as industry or trade associations, were not considered important by most of the firms in this research. Across both industries, formal public networks were generally described by the firms as breeding negativity, out of touch, and irrelevant to their business. However, they were mentioned as potentially useful for newcomers to the industry as a way to build a reputation. This suggests that perhaps these businesses did not find formal networks necessary because they were established reputable businesses.

The growth firms in this research demonstrated how strategically important networks can be for the growth and development of SMEs. They were typically active in a variety of networks, especially those arising from additional business interests. In contrast, the non-growth firms' networks were more fortuitous and, whilst still vital, were not extensively sought beyond what was necessary to continue operations. Overall, benefits of networks were found to include increased business opportunities, enhanced competitiveness, higher information flows, and greater opportunities for learning. Personal and professional networks were found to be important sources of learning (Rae, 2004; Thorpe et al., 2005) and, as Macpherson & Holt (2007) found, a diversity of networks is crucial to SME growth. Furthermore, the more dynamic the business environment, the more important these networks appeared to be (Street & Cameron, 2007).

#### **6.4 Theme Four: Perceptions of the External Environment**

In these case studies, the owner-managers' perceptions of their firms' external environments differed significantly depending upon their growth classification. The growth firms were found to have highly opportunistic perspectives relative to the non-growth firms. They were also found to be more capable and proactive in recognising and exploiting opportunities, in comparison to the non-growth firms who tended to be more reactive and pessimistic regarding their environment and opportunities within it. The ability to recognise and exploit opportunities in the

external business environment is crucial in determining a firm's growth path (Smallbone et al., 1995). Additionally, the growth firms were more externally orientated whereas the non-growth firms were internally core-focused. This theme is illustrated by the two accounting services firms, Firm Seven and Eight. The perceptions held by the manufacturing firms regarding globalisation issues, which have grown considerably over the period, are also discussed as they were important to this theme.

The two growing manufacturing firms in this research exploited many opportunities amidst the contraction of the industry. This was often through the development of innovative niches and international prospects, but also through short-run orders in traditional commodity products. This echoes findings by Edwards and Ram (2006) that small firms "exploited opportunities amid the contraction of the sector globally and the inability or unwillingness of large manufacturers to respond to demands for short-run orders quickly and cheaply" (p. 906). However, for the businesses in this research, this was only done if the owner-managers generally perceived these changes or shifts in the global industry as creating opportunities rather than as inevitable threats to their business. For example, Firm Three, non-growth manufacturing firm, had a nonchalant and passive attitude towards opportunities; in contrast, the firm's growth counterpart, Firm Four, had an optimistic and proactive approach, believing that there are infinite opportunities even despite negative economic conditions. As Garnsey et al. (2006) aptly pointed out, "opportunities are objectively identifiable but their recognition is subjective and requires exploratory activity" (p. 5). Penrose also explained that "the 'subjective' productive opportunity is a question of what it [a firm] thinks it can accomplish. 'Expectations' and not 'objective facts' are the immediate determinants of a firm's behaviour" (p. 41). Furthermore, the ability of an owner-manager to perceive and exploit opportunities in the external environment is considered to be a crucial aspect of a firm's human capital (along with their ambitions and networks examined in preceding themes).

Illustrating these differences of perception is Firm Seven and Eight. In response to questions concerning the development of their industry over the time frame, the owner-manager from the non-growth firm, Firm Seven, emphasised the increased stress, compliance and client demands. Akin to the other non-growth firms, there was fond reminiscence of the past nature of business. In contrast, Firm Eight's owner-manager, despite confirming that the industry had become more complex, preferred the new way of business and its challenges. He spoke positively of the recent shift away from traditional 'gentleman practices' and believed that the industry was catering better for individuals and families than in the past. This was characteristic of the responses given by other owners regarding changes in their clientele, product offerings, markets and industries. The growth firms were generally more positive regarding changes in their external environment whereas the non-growth firms complained about similar changes and were slow to embrace them. The growth firms sought out the opportunities created by shifts in the market whereas the non-growth firms tended to be more reactive. Westhead, et al. (2005) confirm these findings in their claim that portfolio entrepreneurs were more opportunistic than novice entrepreneurs.

Westhead et al (2005) also found that networks increase an owner's exposure to other peoples' perspectives, which subsequently challenges their worldview and increases knowledge acquisition regarding external conditions. The owner's networks and worldviews appeared to positively influence the growth paths of the businesses of this research. The growth firms were more optimistic, proactive and highly networked than their non-growth counterparts. In addition, the owners of the growth firms expressed greater concerns for the competitiveness of the New Zealand economy relative to the non-growth firm's owners. This further illustrates their tendency to be more externally orientated.

The proactiveness of the growth firms relative to the non-growth firms was evident in their handling of personnel shortages. Across both industries, all of the firms spoke of the increased difficulties of hiring personnel of adequate quality and quantity. This was largely attributed to

the migration of experienced and educated people from New Zealand and the existence of inadequate national training institutes. For the non-growth firms this was commonly cited as a major impediment of their growth and development. Penrose (1968) refers to this as a lack of slack capacity in regards to people resources and premises, which can be a major impediment to growth. Vinnell and Hamilton's (1999) model also includes labour availability as a mitigating force of small business development (see Figure 3). The owners of the non-growth firms believed that this would continue to be a major problem in the future; they believed there was little they could do to rectify the problem, other than retain and train currently existing staff. In contrast, the growth firms were proactive and found ways to address the problem. This included importing people, particularly cheap labourers; outsourcing to university students; establishing training institutes and outside mentoring programmes; and partnering with universities for training.

The non-growth firms' owners appeared slightly risk adverse with regards to hiring people. For example, they described it as a 'catch-22' situation of needing to take on more work before they could hire more people, but that they could not take on more work until they had the personnel because they were at full capacity. This requires taking on more risk by hiring additional people with the view to acquiring work once they have the staff. However, the owners' unease about this issue suggests a slightly risk-adverse nature. Combining the individual traits and networking literature, Shane and Venkataraman (2000) reported that the recognition of opportunities depends largely on the individual: their cognitive properties and information stocks. The traits identified as leading to a higher likelihood of exploiting an opportunity included their *willingness to bear risk*, internal locus of control, *higher level of optimism*, higher self-efficacy, greater tolerance for ambiguity, and higher need for achievement (Shane & Venkataraman, 2000). Similar traits were found to be strong in the growth firms' owner-managers and were lacking in their non-growth counterparts.

Individual traits evolve with experience and affect a person's world view. An owner's worldview or perception influences the way he/she perceives the business environment, and subsequently the response to that environment. For example, in a downturn individuals may take a deterministic view and see only threats, or they may remain generally opportunistic and exploit opportunities created by the shift. This obviously affects a firm's performance and growth. The growth firms in this research were found to be highly opportunistic and proactive, the stable firms were more nonchalant and often pessimistic, and the declining firms were highly pessimistic and reactive towards their environment.

## **6.5 Organisational Learning**

Organisational learning was implicit in the above themes. Strong organisational learning abilities are required within a firm in order to be innovative and flexible. This involves actively managing and developing the firm's products and markets (Smallbone et al., 1995). Mentoring, training and development, and networking with other innovative and/or complementary businesses had enabled the owner-managers to create innovative and flexible businesses. The concepts found in the organisational learning literature proved to be informative to this study; however, its present fragmentation meant that there were no particular models or frameworks, which in isolation from others, were sufficiently developed to be of use.

The application of learning in SMEs gave the firms a competitive edge in an increasingly complex and dynamic competitive environment. In the past, researchers suggested that small firms should largely focus on competing with high quality products in niche markets, in which there was an absence of large firms. This is no longer sufficient for current SMEs wanting to successfully grow. In these case studies, those still enacting such a strategy were not performing particularly well. SMEs now need to also be offering innovative products and services, which are being continually developed. Those firms that had learnt from and adapted to changes, such as

the increased internationalisation of businesses, were able to continue to develop their business. The growth firms had modernised their business practices and, in some cases, had gone considerably against the ‘standard’ industry practices, creating a crucial competitive edge by being highly entrepreneurial and flexible.

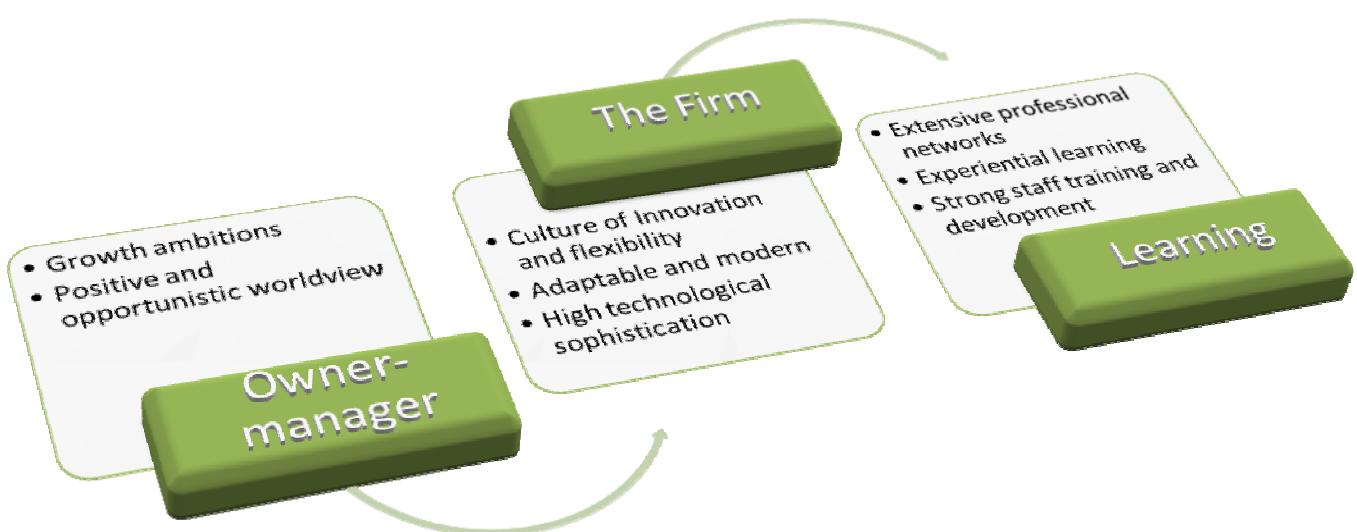
Also of interest was the high level of importance attributed to the owners’ private professional networks and the low regard for formal networks. In the growth firms, these professional networks were important sources of new business, staff training and learning. These networks were largely formed through the owners’ involvements in additional business ventures, in accordance to their portfolio entrepreneurship. The growth firms also utilised these professional networks to further their internationalisation. Chetty and Campbell-Hunt (2003) aptly portrayed the owner-managers’ reasoning behind this: “[c]ollaboration is particularly important in a small, open, isolated economy, such as New Zealand, where the average firm is small compared to its international counterparts” (p. 5-6). This is important because exporting and internationalisation are increasingly vital for SMEs wanting to grow (Deakins & Freel, 2006). Exposure to a diversity of people through a variety of networks can be successful in challenging people’s perspectives and is also a good source of information regarding a firm’s external environment. This effectively keeps these business owners more open to learning, externally orientated, and better able to recognise and exploit opportunities than the non-growth firm’s owners, who were significantly less active in networking.

The interrelationships between inventiveness, flexibility and learning capabilities of the firms were crucial to their survival and growth over the long term. Such capabilities were instilled and enabled by the owner-managers. It is therefore proposed that the owner-manager’s ability to learn and create a learning environment are crucial elements of a firm’s human capital. Researchers have often overlooked this idea when studying human capital: they have tended to focus predominately on prior experience and education (Ucbasaran et al., 2006).

## 6.6 Conclusion

The overall research themes and underlying learning processes were found to be the main factors which distinguished the growth and non-growth firms examined in this research. These factors were found to be significantly more important than specific events which caused a firm's growth path to change. Such events and the reasons for them varied greatly. That is, one type of event that caused one firm to go into a plateaux period may have little effect on another similar firm. The effect of such events was ultimately determined by the strength of the firm and its owner-manager in the research themes: owner-manager's growth ambitions; culture of innovation and flexibility; extensive professional networks; and perspectives of the business environment. Figure 16 and Figure 17 below indicate the key differences between the growth and non-growth firms.

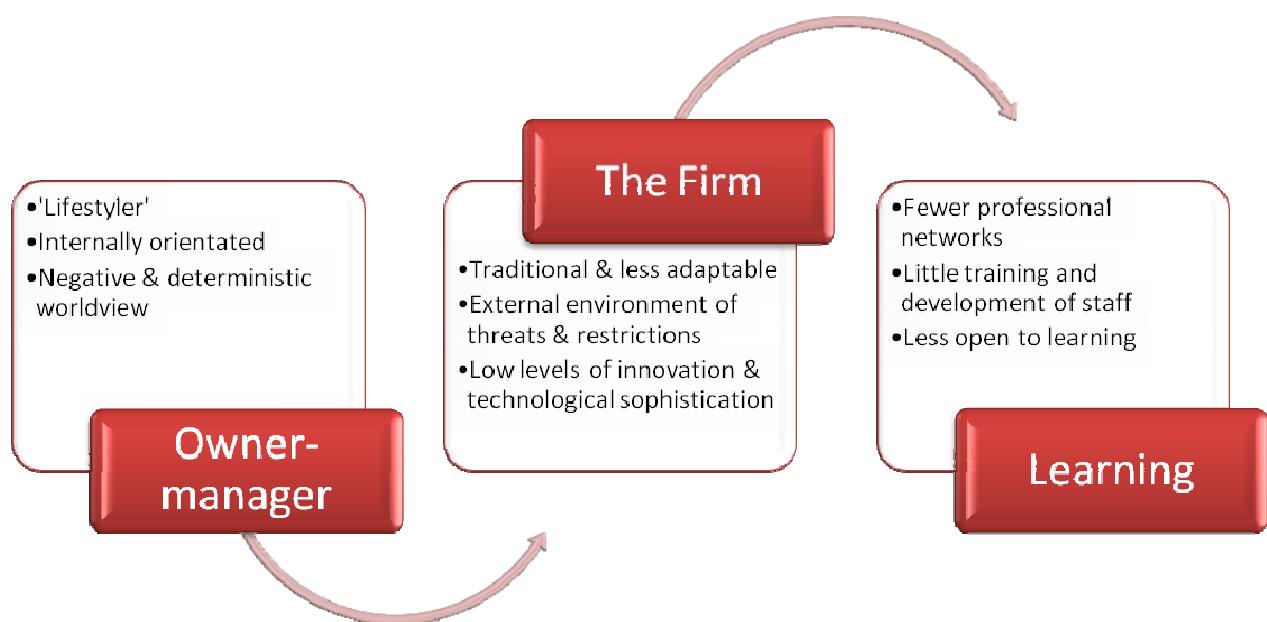
*Figure 16. Factors Underlying the Case Study Firms that had Positive Growth Paths*



The owner-managers were crucial in determining the firm's growth paths. In the growth firms, the owner-managers were found to have strong growth ambitions, were externally orientated, and possessed a more positive perspective of their business's external environment. This enabled

them to recognise and exploit opportunities. The firms themselves had a culture of innovation and flexibility. They subsequently tended to be less conservative and more modern. Underpinning this was their ability to learn from their experience and their extensive professional networks, which enhanced their innovation and exploitation of opportunities.

*Figure 17. Factors Underlying the Case Study Firms that had Flat or Negative Growth Paths*



In contrast, the ambitions of the owner-managers of the non-growth firm's were focused on personal independence and maintaining their desired lifestyle. They tended to be more internally focused targeting the organisation's core operations and customers. Changes in their business environment tended to be viewed as inevitable threats or restrictions to their current way of life. Due to their less adaptable nature, the non-growth firms tended to be more conservative and traditional. None of the owner-managers were actively involved in other business ventures and were subsequently less open to learning. Networking and learning, which were vital aspects of the growth firms, were not as pronounced in these firms. Some believed these were beyond the reach of their business, and again took a more fatalistic perspective. The firms in this research are similar to Zhang et al.'s (2006, as cited in Ekanem and Smallbone, 2007) distinction

“between ‘stable’ firms where owner-managers are inward facing and learning is generally experiential and concentrated on single individuals; and ‘innovative’ firms where owner-managers are outward facing and encourage the development of ‘deeper and wider’ learning.” (p. 123).

Organisational learning underlies all of the themes to varying degrees. For example, *innovation* is essentially learning to do new or better things; to be *externally orientated* and *flexible*, the business and its owner need to listen to and learn from the surrounding environment; the owners need to learn to *see opportunities* where others do not; and *networks* are an important source of learning to enhance these aspects of the business. The relationship between these learning processes and SME performance is crucial to understanding a firm’s growth path. Hugo and Garnsey (2005) also believed that learning processes underlie the growth paths of small businesses. The most important sources of learning in these cases appeared to be experiential learning and involvement in multiple business ventures. Huber (2001) predicted:

... that in the future we can expect organizational learning to be a crucial factor in corporate survival, so organizations will have to manage this process more proactively, in an intensive and coordinated way. It will happen because (Huber 2004:188): survival in a dynamic and competitive business environment requires innovation, innovation requires new knowledge, or a new way of combining current knowledge, new knowledge, or a new way of combining current knowledge, requires learning. (p.2)

This suggests further tough times ahead for the non-growth firms if they continue to shy away from learning and adapting; however, it also by no means suggests the continued success of the growth firms, for continuous growth is rare and depends upon the continuing and appropriate mix of key factors, which Storey (1994) defines as the entrepreneur’s characteristics, the firm’s attributes, and strategy components, all necessary components required for a firm’s growth.

Shifts in these components can result in changes in the direction or slope of a firm's growth path. However, the findings in this research weighed more heavily on the entrepreneur or business owner-manager. Other factors not recognised in Storey's (1994) research were found to be influential, such as networking and learning, whilst some included in his framework, such as sector and education, were not. Overall, the findings from this research resonate more with the work of Penrose (1968). Penrose's (1968) informal and verbal approach to explaining firm growth, aptly describes the importance of the business owner's managerial resources and slack capacity, the subjective nature of a firm's productive opportunity, and the dynamic and complex nature of firm growth. However, her findings specific to small firms were less so as they largely focused on small firm's relationships with and dependence on large firms. This was not found to be the case in these firms, which for the most part did not consider large firms in their strategic reasoning and development.

Finally, the firm's attributes and growth paths accurately corresponded to the SME configurations noted by McMahon (2001): 'life style' SMEs, capped growth SMEs and entrepreneurial SMEs. For example, Firm One and Three followed low growth paths and had few growth aspirations beyond providing the owner with an income and employment, characteristic of the 'life style' SMEs. Firm Five and Seven could also be included in this category. Firm Six and Eight accurately match the capped growth SMEs description of following moderate growth paths, with modest growth aspirations that often result in the owner restricting the firm's growth. Lastly, as entrepreneurial SMEs, Firm Two and Four had experienced high growth paths, had high growth ambitions, and were orientated towards internationalisation and innovation. The following chapter concludes this thesis by discussing the implications of the above findings for theory and future research on SME growth.

## **7. CHAPTER SEVEN: CONCLUSION**

The primary goal of this research was to determine distinguishing factors between growth and non-growth firms over the long-term. This final chapter presents the conclusions and implications of the findings. The limitations of the research are also explained. The chapter concludes by specifying the contribution of this study to the field of small business growth and provides recommendations for future research.

### **7.1 Research Findings and the Literature**

Differences in the two broad growth categories of ‘growth’ and ‘non-growth’ firms centred around four themes, which became apparent in the case studies: owners’ growth ambitions; innovation and flexibility; strength and breadth of professional networks; and perceptions of the external environment. The strength of these areas identified in the individual owner-managers and their firms were found to be the main factors differentiating the growth and non-growth paths of the firms.

#### ***The Owner-Managers***

The owner-managers and their ability to learn were central to many of the factors identified as influencing the firm’s growth path. These factors included their ambitions, networking ability and worldviews. The more the owner-managers were ambitious, charismatic, optimistic and open, the better and more frequently they were able to recognise and respond to growth opportunities. The firms reflected their creativity and adaptability; subsequently, the firm’s growth and development outperformed other similar firms. The owner-managers’ characteristics corresponded to the two categories recognised by Dalley and Hamilton (2000) as ‘lifestylers’ and ‘professionals’, which reflected their ambitions and motivations.

The case studies demonstrated that achieving owner-managers found opportunities despite radical changes and downturns. From the literature, it was expected that the sector and industry effects would be more pronounced; however, while there were issues unique to each, they were not of significant importance relative to the components described in the themes. These relevant components were more generic to SMEs from all the different sectors and industries in this research.

The centrality of the owner-managers is aligned to much of the literature that supports the close relationship between the owners and the firms. It is therefore proposed that small business growth cannot be adequately analysed without consideration of the owner-manager. In some cases, if the owner had not been considered when examining certain short term periods, as is commonly done in the literature, contradicting and potentially inaccurate findings could have been produced. Finally, when investigating long-term growth, a small business is likely to have experienced substantial changes in its external business environment. Such changes will impact, sometimes greatly, on the growth and development of the firm. However, as the growth firm owners confirmed, changes also create opportunities. The impact of such changes will ultimately be determined by the owner and his/her ability and openness to learning: owner-managers can act for growth or against it.

### ***Growth Paths***

The emergent literature on growth paths correctly describes growth as erratic, multi-dimensional and dynamic. Growth was found to be prone to changes for many different reasons, which is the reason why a long-term view is necessary. All of the firms were found to have experienced significant periods of plateaued growth, regardless of past or future performance and their perceived growth potential. Garnsey and co-authors (2005; 2006; 2005) claimed that growth interruptions can come from both internal and external shocks, and that underpinning the growth

paths were vital learning processes. Growth interruptions were, however, found to be manageable if the owners were sufficiently ambitious, innovative and flexible, and networked. Furthermore, the types of firms and their corresponding growth paths correctly matched those distinguished by McMahon (2001) that is, the ‘life style’ SMEs, capped growth SMEs, and entrepreneurial SMEs.

Employment figures are viewed by some researchers as a consequence of growth, hence not a good measure of growth. However, the owners reported that the growth paths depicted by employment figures were largely representative of their firms’ growth over the fourteen years. This measurement is also advantageous as it enables comparative research across industries, countries and time. However, affecting the lag of employment figures in indicating growth was the level of slack capacity present in the organisation. This is reminiscent of the argument by Penrose (1968) that the more slack capacity in an organisation, the longer or faster it can grow without having to add more people. This further highlights the importance of involving owner-managers in research on SME growth to discover such issues.

Due to the changes and plateaus, many different and conflicting reports could have been generated if a cross-sectional approach had been taken, which would single out a short time interval. Examining longitudinal data and interviewing the owner-managers proved a more accurate way to gauge a firm’s past growth trend. This is also in accordance with the growth paths literature, which strongly contends that longitudinal data and research methods “are inherently appropriate to representing growth and development of SMEs over time” (McMahon, 2001, p. 199). For the most part, the growth paths literature is focused on new firms and not on established firms, which was the focus of this research. Overall, the growth paths literature is in its early stages and needs further development.

## ***Summary***

There was little prior literature that adequately addressed all of the important aspects discovered in this research. The growth factors approach proved useful in its provision of a wide-ranging list of potentially influential factors and their contrasting arguments. However, the methodologies common to such approaches are seriously flawed. It is therefore no surprise that despite extensive research, which goes back many decades, little consensus has emerged regarding such growth factors. Over the course of this research, the concepts presented in the organisational learning literature emerged as increasingly important. However, as this literature is relatively new, few frameworks or models are available that can be adequately applied to understand learning in small businesses and/or its relationship to growth. The growth path literature was similar in this regard: its methodological approaches are correctly working towards understanding small business growth as a complex, dynamic and longitudinal phenomena. Nevertheless, this literature currently over-simplifies the growth paths which it espouses cannot be simplified. It therefore proved advantageous that an exploratory approach was taken in this research: it included a wide range of literature in an attempt to fully explore the long-term growth and non-growth trends of SMEs.

## **7.2 Research Limitations**

### ***Interviews***

One limitation of this research was that it did not incorporate the perspectives or views of employees. Additional interviews with employees would have been beneficial as a check and counterbalance to the owner's responses. Further, it would have been valuable to interview the people in the ownership/management teams of the services firms, for they are also likely to be influential in the direction and development of the firm. If time permitted, this research would

have been enhanced with the inclusion of these additional interviews. However, this would also have necessitated a reduction in the number of cases due to the richness of such qualitative data.

A further limitation of these interviews, which was discovered during the interviewing stage, was the recall problems associated with historical interviewing. It was found to be challenging to get the business owners to focus on and recall in detail events over the entire period. Accuracy of recall can also be problematic. For this reason, additional publicly available sources of information were used to triangulate interview responses as much as possible.

### ***Researcher skill and learning effects***

Whilst semi-structured interviewing provides a set framework, it also allows exploration into new or interesting topics of conversation as they arise. It is in these digressions that the skill of the researcher is particularly important. Naturally, a researcher's ability in the unstructured parts improves as more interviews are conducted and learning on the emergent topic areas is enhanced. Therefore, it is in these departures from the interview guide that variance across the interviews occurs: the researcher's mounting interviewing ability affects the quality of these digressions.

### ***Growth Measures***

The use of only one growth measure is a further limitation. Researchers suggest that, where possible, it is better to use multiple measures of growth (Davidsson et al., 2006). Whilst additional growth measures were discussed in the interviews, full financial data would have been advantageous to triangulate with the employment-based growth paths and confirm the owners' responses. Unfortunately, this information was not forthcoming, as these firms were all private companies and there was only a short time available to establish a relationship between the researcher and the interviewees. Financial measures would have further improved this research.

Ultimately, the findings of this research are not generalisable to populations due to the limitations of the multiple case study methodology. This type of research is better suited to generalising to theory. These limitations, in conjunction with the research findings, give rise to potentially advantageous areas of future research.

### **7.3 Conclusion**

Researchers now recognise that growth is patently a longitudinal phenomenon and requires research methods reflecting this; however, exactly how this should be accomplished remains vague. This research focused on growth as a dynamic and longitudinal phenomenon by utilising a different methodology from the predominately cross-sectional survey methods commonly found in small business growth research; in this case, a multiple case study methodology was employed. Growth paths were depicted using longitudinal employment data and semi-structured interviews formed the main data source.

The incorporation of non-growth firms, paired with similar growth firms, is rare in the literature and provides a counterpoint of reference, hence improving the validity of the research findings. Furthermore, this study took place in New Zealand: no research of this kind was found to have been done on New Zealand SMEs. The extended period of time and breadth of literature covered by this research is also relatively rare. Organisational learning and growth paths were two key areas discovered within the literature that enhanced these research findings with its emphasis on the dynamic processes of growth.

Owner-managers and organisational learning were found to be central to long-term performance of the firms. In small businesses, the owners are often in a position to control the rate of growth and even decline. A firm's level of human capital was vital to their long-term growth performance. Important components of this human capital were found to be the owner's

concurrent business activities, and the resultant professional networks, openness to learning and worldviews. Non-growth firms were characterised by owner-managers who were less ambitious and more focused on maintaining an adequate income and lifestyle. They took a more traditional and conservative approach and were less proactive in regards to additional business ventures and professional networks. They showed ambivalence to learning and adapting; in some cases, this led to significant periods of decline and/or stagnation. In contrast, the growth firm owner-managers were ambitious, externally orientated, had a higher level of strategic awareness, and more open to learning.

## 7.4 Future Research

Growth paths can not be studied with purely quantitative cross-sectional research methods. When classifying firms into growth categories, it is important to consider additional factors and changes over the time period that may alter a firm's growth classification. Examples of additional considerations found in this research included outsourcing, past or future changes of ownership, and changes in an owner's situation. Multiple measures of growth would also be beneficial. Longitudinal research involving continuous participation of the firms under study is also recommended, especially those focusing on the learning abilities of owners and firms. Individual traits and characteristics are not static and need to be studied longitudinally to enhance understanding of their impact on firm performance and their development over time. The organisational learning concepts could be used to develop the individual traits literature and could prove informative to understanding small business growth paths. Furthermore, a large percentage of SME owners appear to be motivated by lifestyle factors and have low growth ambitions. A potentially fruitful area of research could involve examining the 'lifestylers' in more depth in order to eventually encourage the development of their businesses. Finally, further study is required in the area of enhancing learning in SMEs and their owners, especially in ways that will directly affect firm performance and growth.

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## **APPENDIX A: HUMAN ETHICS APPROVAL**

Ref: HEC 2008/LR/05

3 April 2008

Ms Bridget Hansen  
Department of Management  
UNIVERSITY OF CANTERBURY

Dear Bridget

Thank you for forwarding to the Human Ethics Committee a copy of the low risk application you have recently made for your research proposal “A walk along the growth path.”

I am pleased to advise that this application has been reviewed and I confirm support of the Department’s approval for this project.

With best wishes for your project.

Yours sincerely

Dr Michael Grimshaw  
*Chair, Human Ethics Committee*

## **APPENDIX B: INFORMATIONAL LETTER**

[Date]

[Full Name]  
[Official Title]  
[Firm Name]  
[Mailing Address]  
Christchurch

Dear [Name]

### **Growth patterns of established businesses**

We are writing to request your participation in a research project on the sources and timing of growth in established businesses. The study will form Bridget Hansen's Masters thesis.

If you or one of your senior colleagues are willing to participate, we will arrange a convenient time and place to conduct an in-depth interview lasting around 90 minutes. The starting point for the interview will be a 'growth path' of your firm that we have created from the employment data in the *New Zealand Business Who's Who*. We would also appreciate access to any public documents that relate to the development of this business.

With your consent, we would record this interview with the undertaking that it would not be available to anyone other than ourselves and the transcriber. A copy of the typed transcript will be provided to you to check for accuracy and to add any additional comments. Names of people and businesses participating in the study will not be revealed and the project has obtained Human Ethics approval from the university.

We will call your office in the next few days and, if you are able to participate, we can then arrange an interview time.

Yours sincerely

Professor R T Hamilton  
Thesis Supervisor

Bridget J Hansen  
Masters thesis student

## **APPENDIX C: CONSENT FORM**

**University of Canterbury**  
**Consent Form for Participation in a Research Study**  
**Title: A Walk Along the Growth Path**  
**Researcher: Bridget J. Hansen**  
**Supervisor: Professor Robert T. Hamilton**

### **Purpose**

The purpose of this research is to enhance understanding of the growth paths of small-to-medium sized firms. The aim of this interview is to gain additional insights and information on the critical points/issues in the related firms history that influenced their growth, be it negative or positive.

### **Voluntary Participation**

Participation in this study is voluntary at all times. You may choose to not participate or to withdraw your participation at any time. Deciding not to participate in the study will not result in any penalty. If you decide to leave the study before its completion the information you have already provided will be destroyed.

### **Questions**

Any questions regarding the study please contact:

Bridget Hansen	or	Professor Bob Hamilton
Phone: (03) 364 2987 ext [....]		Phone: (03) 364 2987 ext [....]
Email: <a href="mailto:bjh99@student.canterbury.ac.nz">bjh99@student.canterbury.ac.nz</a>		Email: <a href="mailto:bob.hamilton@canterbury.ac.nz">bob.hamilton@canterbury.ac.nz</a>

### **Authorisation**

I have read the information in this consent form and the accompanying letter. All my questions about the study and my part in it have been answered. I freely consent to take part in this interview. If I sign this form, I do not lose any of the legal rights that I would otherwise have as a subject in a research study.

Printed Name of Interviewee:      Signature of Interviewee:      Date:

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I confirm that I have adequately explained the research and the subject has consented to participate.

Printed Name of Researcher:      Signature of researcher:      Date:

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## APPENDIX D: INTERVIEW GUIDE

### Introduction:

- *About the study* Master's thesis - due Feb 09 - supervised by Professor Bob Hamilton.
- *Aim* is to increase understanding of growth and non-growth of small-to-medium businesses.
- Multiple case studies examining the development of eight small businesses over 14 years (1994 to 2007). The growth paths are illustrated by employment figures from the *NZ Who's Who* directory.
- Four firms - manufacturing industry, and four firms - professional and business services industry.
- In the final report, the company and yourself will remain anonymous.
- You do not have to answer any questions that do not wish too.
- Permission to be tape recorded? These will only be listened by myself, possibly my supervisor, and a professional transcriber. You will have the opportunity to review the transcript to provide any corrections or additional comments. I also be taking some notes throughout the interview.
- Questions?
- Consent form?

### Company Stats:

Company Name:			
Legal Form:			
Industry:			
Year established:		Number of founders:	
Names of Founders:			
Family involvement (Was it started as a family bus.):	Yes / No	If yes, how many members involved? In what capacity?	

### Interviewee Information:

Name:					
Current Position:					
Gender:	M / F	Age bracket (i.e. 20-29):		Founder:	Yes / NO
Total time with firm:					
Previous position(s):					
Prior Experience / Employment:					
Highest level of Education attained:					

**Firm's founder:**

- Is this company the **first business** that you have ever started?
- Why did you **start** this company? [ *unemployed / opportunity / dissatisfaction / freedom/money*]

**General Questions:**

- Are you actively **involved** in any other firms at the moment? ( e.g. directorship / advisory role?)
- What is the main **benefit** to you personally of running your own business?
- How would you describe your company's current **strategy**? (how changed over time?)
- Can you explain a bit to me the current **structure of the organisation**? (changed over time?)
- How would you describe the **culture** of your organisation?

**GROWTH PATH:** *Graph Provided*

- How accurate would you say these figures from the NZ Who's Who directory are? (Is it the full-time equivalent number of employees? Or count of fulltime and part-time? **Subcontracting?**)
- **Growth phase** - Can you recall what **lead to** this increase in the number of employees?  
Why did that particular growth phase **stop**?  
What sort of **people** were added at that time (mgmt roles or support staff)?
- **Decline phase** - Can you recall what lead to this decrease in the year...? Why did it turnaround?  
**stable/flat period?**
- Were there any noticeable **effects** of this decline phase on the firm? What were they? Why do you think might be? (e.g. strategy, structure, personnel or resources?) **Shifted premises?**
- How well do you feel these figures **represent** the growth of your company? Why?
- How would you say the company's **turnover** has progressed in relation to these employment figures? (Average **contract size**? Large? Small?)
- Were there ever any periods when there were **opportunities to grow** that were chosen not Too to be acted on? (When? What? *Why?*)

- What would you say might have been **restricting** the company's growth over this period? (Capital/finance? Industry? Market demand? Innovation? Personnel?)
- How do you think **demand** for your product/service has changed since the mid-1990s?
- How would you describe the development of the firm's main **competitors** during this period?
- How would you say your **industry** has changed since the mid-1990s?
- Any **new technologies** introduced over this time period? How important is **innovation** and **R&D**?
- What do you think is your firm's main source of **competitive advantage**?
- How important would you say your **relationships** with suppliers and distributors have been to the firms growth? (Prompts: In what way? Why? actively maintain or enhance relationships?)
- Is the **organisation** involved in any industry groups, bodies or **networks**? (Prompts: how many? what groups? What activities?) What do you find to be the **most useful**? Why?
- Are you **personally** involved in any professional **networks** groups or bodies? **Useful**? Why?
- How important is **training and development** in your organisational? (What sort of training and development to employees receive? Do all employees receive training?)
- Does the firm engage in any **mentoring or coaching** of employees?
- Does the company do much in the way of **marketing** activities? What sort of marketing strategies does your firm engage in? How has that changed over this time period?
- External **advisors**? (financial / strategy, personnel advice / product design, market research)

#### **Final questions:**

- What do you think the firm's growth path might like look over the **next 3-5 years**?
- **Anything else** you would like to add or anything important to the subject that we haven't covered?
- How would you like to receive the **transcript**, email or post?

## APPENDIX E: FIELD NOTE STRUCTURE\*

### **Interviewer Observations:**

1. *Observations* - symbols (cars or car parks), signage, rituals, metaphors.
2. *Objects*:
  - a. *Dress* – formal / casual? Differences between management and staff?
  - b. *Props* – photos, documents, awards, products.
  - c. *Physical location* – office size, location, windows, view, open plan, formality, modern or old, style of reception area.
3. *Proxemics* (physical distance):
  - a. *Seating arrangement*
  - b. *Room* – office, meeting or board room. Layout, furniture.
  - c. *Body language* – leaning forwards or back, shifting, mimicking, formal or informal, hand shake (beginning and end).
4. *Other*:
  - a. *Tour of facilities* – acknowledgement of staff and use of names, body language between top management and staff.
  - b. Offer of tea/coffee, food, and so forth.
  - c. Timeliness of interviewee – post and prior commitments.

### **General Reflection Topics:**

- State of mind prior to the interview?
- Was trust established?
- How did we interact?
- Ease of questioning? Flow?
- Was the interviewee open to acknowledging issues or faults?
- Interviewee interested in the interview subject and my research?
- Power plays – positioning of power?
- Contradictions?
- Feeling after the interview?
- Integration (harmony)
- Differentiation (conflict)
- Fragmentation (ambiguity)
- Overall, what were they telling me? Main story / emphasis from the interview?

\*Adapted from Justin C. Brown (2008, p. 169).

## APPENDIX F: NVIVO 8 NODES

Free Nodes		
Name	Sources	References
Communication	4	5
Culture	6	13
Customer relations	8	38
Employees	8	59
Environmentalism	1	1
Exporting	4	18
Fun	2	2
Management style	1	1
Marketing & Sales	6	24
Networking	8	45
Opportunities	6	24
Organisational Structure	8	30
Passion	1	1
Premises	7	17
Productivity	6	18
Products or Services	8	62
Q - Changes in Industry or market	8	45
Q - Competitive Advantage	8	13
Q - Extras at the end	6	6
Q - Family Business	5	7
Q - Opportunities Not Acted On	6	7
Q - Relationships with Suppliers	2	3
Reputation	3	9
Strategy	8	32
Vision	3	9

## Tree Nodes

Name	Sources	References
External Environment	0	0
Name	Sources	References
Competition	7	13
Macroeconomics and Govt	8	38
Name	Sources	References
NZ dollar	2	10
Elections	3	4
Name	Sources	References
Suppliers	2	7
Innovative R&D	0	0
Name	Sources	References
Yes - successfully	5	41
No or Unsuccessful	4	10
Flexibility	5	15
Internet & computer systems	7	22
Firm History (pre-94)	6	10
Name	Sources	References
Founders	6	10
Growth Paths!!	8	66
Name	Sources	References
Motivation	8	32
Q - Accuracy of the Graph	8	13
Q - Representativeness of the Graph	8	10
Financial Growth	7	10
Growth - Reasons	8	42
Decline or Flat - Reasons	8	43
Growth - Effects or Consequences	5	10
Decline - Effects or Consequences	3	6
Future Issues	5	16
Q - Future Growth Path	8	10
Globalisation	5	22
Name	Sources	References
Business Migration	4	18
People Migration	5	13
Asian Imports	4	19
Restricting Growth	8	22
Name	Sources	References
Slack capacity	2	3
Name	Sources	References
Premises	2	3
Staff	3	3
Name	Sources	References
Internal Shocks	1	1
External conditions	4	7
Personal choice	2	6
Personality	1	2
Risk avoidance	2	4

 Learning	5	21
Name	Sources	References
 Training and Development	8	20
 Mentoring	6	6
Name	Sources	References
 Mentoring - Yes, formally	2	3
 Mentoring - Yes, informally	4	4
 Interviewee	8	65
Name	Sources	References
 Extra Involvements	6	10
 Age	3	3
 Education	6	6
 Prior Experience	8	22
 Growth Intentions and Motivations	0	0
Name	Sources	References
 Growth Avoiders	4	9
 Passive Intentions	4	14
 Growth Seekers	5	14

## APPENDIX G: NVIVO 8 MATRIX QUERIES

### Theme One – Owner's Ambitions by Growth and Non-Growth Classifications

*Number of coding references*

	A : Overall Classification = Growth Firm	B : Overall Classification = Non-Growth Firm
1 : Growth Seekers	4	1
2 : Passive Intentions	1	3
3 : Growth Avoiders	2	2

*Number of words coded*

	A : Overall Classification = Growth Firm	B : Overall Classification = Non-Growth Firm
1 : Growth Seekers	276	100
2 : Passive Intentions	21	474
3 : Growth Avoiders	125	181

### Theme Two – Research and Development (Yes and No), Flexibility and Technology by Growth and Non-Growth Classifications

*Number of coding references*

	A : Overall Classification = Growth Firm	B : Overall Classification = Non-Growth Firm
1 : Yes - successfully	4	1
2 : No or Unsuccessful	0	4
3 : Flexibility	3	2
4 : Internet & computer systems	4	3

*Number of words coded*

	A : Overall Classification = Growth Firm	B : Overall Classification = Non-Growth Firm
1 : Yes - successfully	2584	534
2 : No or Unsuccessful	0	1080
3 : Flexibility	326	194
4 : Internet & computer systems	800	438

### Learning, Training and Development, and Mentoring by Growth and Non-Growth Classifications

*Number of words coded*

	A : Overall Classification = Growth Firm	B : Overall Classification = Non-Growth Firm
1 : Learning	957	17
2 : Training and Development	1482	1060
3 : Mentoring - Yes, formally	38	35
4 : Mentoring - Yes, informally	166	100