

**THE LEARNING-DECODING APPROACH AS A MEANS
OF OVERCOMING THE BARRIERS TO GROWTH
IN SMALL & MEDIUM SIZE ENTERPRISES**

A thesis submitted for the degree of Doctor of Philosophy

by

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ABSTRACT

This thesis explores how small business owners learn to learn¹ to overcome barriers to growth or commercial success. This learning takes place within a process which has been termed the Learning-Decoding Approach. This Approach consists of three main factors -

- (1) how small business owners Scan their environment for signals and cues;
- (2) how they Decode any signals and cues; and
- (3) how they Test their Mental models and Assumptions - this factor incorporates an analysis of the inclination to be Open to changing or affirming the Mental Models and Assumptions held.

Further, it examines what the small business owner does with the final result from this process: that is, is it used to influence the design of some strategic plan or does it become part of an emerging one?

Generally, it was found that Strategic Planning is not a function of the Learning-Decoding Approach. It is not considered a core tool for overcoming barriers to growth. Its major role is at the task or operational level rather than the business level. Further, any attempt at Strategy Planning is only used as a guide.

Fifty small firms were investigated within two 'knowledge-worker' sectors: the Management Consulting Sector and the Marketing Consulting Sector. Within these sectors three sizes of firms were reviewed. Thirty-eight male and twelve female owner-managers were involved in the interviews.

The research identified a number of similarities and some differences between the sectors; and provided a cultural explanation for them. The daily work practices used by owner-managers showed that the sectors were different but closely aligned.

¹ The author first came across this expression in the work of Argyris, C. - Teaching Smart People to Learn - Harvard Business Review, May-June 1991, pp. 99-109.

A tentative Learning-Decoding Approach model was developed and comprised three spectrums. Firms can be positioned on them according to their predisposition to, and skills in, Scanning the environment for signals, and Decoding the signals and then Testing them against their Mental Models and Assumptions. Further, if learning is to occur the owner-manager must be prepared to be open to changing any Mental Models and Assumptions held.

By learning the skills implicit in this process, the owner-manager can move on to learning how to overcome the barriers to growth. This suggests that the Learning-Decoding Approach can provide a helpful model for advisers to enable them to mentor, coach, counsel or facilitate small business owners in a review of their business style and practice.

The main conclusion drawn from the thesis is that Scanning, Decoding and Testing are perceived as valuable activities which influence commercial success. However, a gap is evident between attitude and behaviour. Due to this, it is felt that the aims of the research are only partly met.

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CHAPTER 1: INTRODUCTION

Stanworth & Gray (1991) state that “one of the most significant economic and political events of the last ten years has been the revival of the smaller business in the UK”.

During the last decade the self-employed constituency rose to over 3 million people (Labour Force Survey 1993); and the private sector businesses with less than 20 people represented approximately 7 million jobs, Woods, Blackburn & Curran (1993), citing McCann (1993).

The contribution small firms make to the economy now cannot be disregarded; 92% of all business in 1991 had two or less employees, Storey (1994). Thus, it is not difficult to understand why small firms are perceived as one of the routes forward to economic well-being.

However, the death rate of small firms, that is the vulnerability of small firms to failure, is a ubiquitous problem. The possibility of failure is at its peak in the early years of the firm’s life, Stanworth & Gray (1991); and 36% die within 3 years, Storey (1993).

Research evidence shows that it is not worthwhile to fund new start-up firms. Evidence is pointing strongly to nurturing existing businesses with fast growth potential, Storey (1994, 1993), because “new firms are being started but few subsequently grow rapidly to reach the point at which they become significant international competitors”, Hay (1992).

As Storey (1993) points out 50% of jobs over 10 years are created by the 4 fastest growing firms out of every 100 in their group and these should become the focus of policy makers.

What constitutes the definition of small business has been a point of discussion for several decades. In fact research has highlighted that no homogeneous description is

useful, Rainnie (1991); Goss (1991); Curran (1990) and that no single definition exists, Storey (1994).

By trying to define it in reductionist terms is simply complex and fruitless. In fact, some researchers suggest size is not the only factor which defines small; locality, independence and sector are the other three contextual variables, McNulty, Woods & Black (1993).

This research project selected the service sector as its focus, particularly the Management and Marketing Consulting sectors. Several reasons underpin the choice of the service sector; first, nine out of ten firms employing 1 to 24 people are in the service and construction sectors; and the financial and business services have increased by 86.4%, and other services by over 100% during the periods 1979-1989, Stanworth & Gray (1991), citing Daly (1990). The second reason is that the author is intimately concerned with a small Management Consulting firm. And third, knowledge workers are a relatively neglected area of study, especially at the micro level (no staff).

In addition to focusing on the fast growing service sector this research sets out to explore how owner-managers can survive, and even grow, by learning to overcome the barriers which confront them.

The literature on small firms is rich with evidence on the various topics associated with the barriers to growth. There is a wealth of authorship on the paucity of marketing skills in evidence; the approach of financial institutions toward small business owners' expansion or even start-up aspirations; the industrial relations situation; development of management skills; the need for independence; the motivational aspects of small business owners and even their personality. Scase & Goffee (1982), Storey (1985, 1994), Barber et al (1989), Curran (1990), Binks (1991), Pratten (1991), Stanworth & Gray (1991), Goss (1991), Cambridge Small Business Research Centre (1992), Gray (1993).

This brief review of the importance of small businesses to the economy and the associated problems they encounter, forms the pad from which the research is launched.

The aim of the research is to examine a process whereby small business owners can learn to learn to overcome barriers to growth by effectively performing the tasks of Scanning the environment for signals, Decoding any signals received, and Testing their Mental Models & Assumptions against the results. These processes are encapsulated by the title of the Learning-Decoding Approach. Finally, it examines whether the results are translated into actions which become the basis of an emerging planning process for the business rather than a planned strategy.

Definitions of each sector were established and the range of expertise within the definitions allowed for a broad sweep to be made of firms associated with each sector. These definitions have been set out below:

Marketing Consulting Sector

The firm delivers expertise through services in one or more of the areas of Market Research, Direct Selling, Sales Promotion Campaigns and Training, Conferencing and Communications, and Advertising.

Management Consulting

The firm delivers expertise through services in areas such as Organisation Development, Environmental Consultancy, Training, Human Resource Development, and Manufacturing Systems.

The research was focused also within the range of micro firms (sole trader) to twenty-five employee firms as this reflected the situation with the service sector. It was commented upon earlier that 90% of firms employing between one and twenty-four people are in the services and construction sectors, of which the professional services show the largest increase, and that as trends increased in self-employment in the UK 70% did not employ others, Stanworth & Gray (1991).

Curran (1990) comments similarly:

“Self-employment without employing others directly is by far the most common kind of small scale enterprise with around 3 million recorded in the 1988 *Labour Free Survey*”.

Further, the belief was held that differences would surface due to the individualistic approach of the single knowledge worker with no issues around employees compared with those with people to account for (partners, staff, associates, and managers).

As Scase & Goffee (1982) remark:

“The employment of only one person has a qualitative effect of the sort that has been rarely recognised in the literature”.

Storey (1994), in his survey of employment in Northern England 1965-1978, albeit not a sample of small firms in all sectors, used firm sizes 1-9, 10-24, 25-49 and so on. This research adjusted these figures slightly to a range between micro firms (non-employing firms) and employing firms. Thus the research has three focus areas: micro, 2-9 and 10-25 firm sizes, instead of Storey’s equivalent two areas. The justification for this adjustment is that the Consulting sector is replete with micro firms.

Thus, twenty five firms were selected for each sector and these were subdivided by three firm sizes:

10-25 employees	(5 firms)
2-9 employees	(10 firms)
Sole trader (micro firms)	(10 firms)

Of the fifty firms researched twelve were managed by females.

It is of interest that none of the firms under study began life because of “push” motives. A phrase used by Keasey & Watson (1993) to define firms forced into existence by unemployment and other types of economic pressure. All were “pull” started.

Structure of the Thesis and Contents of the Chapters

Following on from Chapter 1 - the Introduction to the thesis - Chapter 2 discusses the first of two reviews of the literature. It examines eight areas which are considered to be barriers facing small firms in their search for growth. The chapter also includes a review of the findings on the search for a definition of small businesses.

Chapter 3 undertakes the second part of the review of the literature. On this occasion the focus is the literature on organisational analysis: from Open Systems to Postmodernism. The aim was to gain insights into small firms by applying the findings from large organisation literature. This connection between the small and large organisation literature has not been pursued energetically by researchers and it was felt it could be productive for this thesis. In fact, this route was instrumental in helping to develop a tentative hypothesis to be researched for small firms. For instance, the importance of Scanning for owner-managers was developed from the role of the environment drawn from Open Systems, Population Ecology, Networks and Institutionalism; Mental Models and Assumptions and Openness came from the findings on Learning organisations; and emergent planning from the work produced on Strategy Planning.

Chapter 4 sets out the research methodology used in the project; the research questions and structured questionnaire. It discusses why both qualitative and quantitative styles were employed. Face-to-face taped interviews were carried out within 50 firms from two Sectors comprising 3 sizes of firm. The data was analysed by the combined sectors, by sector, by size and finally by gender. The aim of the research was to explore a process by which owner-managers can learn to learn to overcome barriers to growth. The sample was made up of well-educated people, 75% male and 25% female. All had held professional positions in organisations prior to entering self-employment.

A Pilot Study was undertaken over a 3 month period to establish the relevance of the hypothesis which has been given the title of the Learning-Decoding Approach. This model suggests that if an owner-manager has the inclination to, and skills in, Scanning

the environment for signals, and Decoding the signals and then subjects them to a Test against his/her Mental Models and Assumptions, then the opportunity for overcoming barriers to growth and commercial success can be enhanced. Moreover, the results of this process can be used to design plans that emerge over time rather than be used to design strategic plans for one to two years. Definitions for Scanning, Decoding, Testing and Strategy Planning were developed, tested and modified and carried over to the main research. The Pilot Study reviewed five firms employing between 6 and 24 people and ranged from an Engineering firm in Liverpool, to a Venture Capital Company in the City.

Finally, the chapter outlines the statistical methods used to analyse the data.

In Chapters 5 to 8, the results from the research are presented. Chapter 5 reviews the 50 firms; Chapter 6 demonstrates the effect of Sector; Chapter 7 of Size; and Chapter 8 of Gender.

Chapter 5 analyses the interview data on Scanning, Decoding, Testing and Strategy Planning from the 50 firms and separates out the findings in terms of the similarities and differences. This procedure reduced the complexity of the data available for further review in succeeding chapters. This was a sensible approach to adopt in order to prevent the data becoming too complex and unwieldy such that it reduced clarity and comprehension. The research demonstrated that Scanning, Decoding and Testing were vital activities which positively influenced commercial success and growth. This contrasted with the results on Strategy Planning which was not considered to be a productive activity in which to engage. Further, openness to changing or modifying Mental Models and Assumptions was considered an essential characteristic of owner-managers who wanted to succeed.

Five themes were evidenced from the findings and are set out below:

Theme 1: The environment for scanning is perceived to be the client base; commercial success is based upon the small business owner's ability to 'client-watch' in order to understand and satisfy signals

picked up there.

- Theme 2:** Decoding and Testing Assumptions and Mental Models are learned skills which influence commercial success.
- Theme 3:** The setting of goals and the use of emergent planning to achieve the goals are the favoured processes of small business owners. Planning is focused primarily on the delivery of service and projects to the client base, not on foreseeing the future.
- Theme 4:** Managing growth and getting business are the primary problems confronting small business owners. However, the first is an issue generally for the larger firms; whilst the latter is mainly a micro firm concern.
- Theme 5:** Informal processes and procedures are endemic in the employment of Scanning, Decoding, Testing and Strategy Planning. Formality is eschewed as an irrelevancy. Ability to apply these “tools” on an ongoing basis is prized.

The differences demonstrated in the research were carried forward for further analysis by Sector in the next chapter.

Chapter 6 explores the effect of Sector and it demonstrates the influence signal frequency has on the Sectors’ biggest problems of managing growth or getting new business. This differentiated the Management Consulting Sector from the Marketing Consulting Sector. The former receive regular, on-going signals whereas the latter only receive intermittent ones. Networking also differentiated the Sectors. The reasons for this are presented and discussed. The data confirmed the findings presented on Scanning, Decoding and Testing, and Strategy Planning and the themes in the previous chapter.

Chapter 7 examines the four activities for size difference. It indicates several Scanning differences between the micro firms and the other sizes and these are discussed. It also demonstrates that Strategy Planning is only used as a loose guide by those who have plans in place; and it is not used at all by those who have limited plans. When

placed against Joyce & Woods (1996) Three Paradigms for Strategy Planning the indication is that small firms are new modernists - concerned with letting plans emerge and learning passively. Some size differences are identified and discussed.

Chapter 8 concentrates upon Gender and demonstrates that no differences exist.

Chapter 9 draws together the findings of the four previous chapters and presents them, in table form, as similarities and differences. Hofstede's (1991) six dimensions of organisation culture were used to establish the influence culture has on both the similarities and differences found in the research. His model helped to demonstrate that the Sectors, although different, are closely aligned. This is followed by explanations of the causes for the differences, such as, consistency of signals, product specialism, skill and motivation levels. Second, explanations were explored for the causes of the large number of similarities. These range across the acculturation process, management paradigms, consideration of methodological flaws and competing discourses.

Chapter 10 presents the Learning-Decoding Approach model and themes in the research. Further, it integrates them with the literature. The results of the chapter show that Scanning, Decoding and Testing are considered key drivers of commercial success; and that the Learning-Decoding Approach is linked to the owner-managers' preparedness to be open to changing Mental Models and Assumptions. Further, it introduces the notion of single and double-loop learning into the process of Decoding and Testing. It suggests that double-loop learning, i.e. the testing of underlying assumptions is more beneficial than single-loop learning. The former tests underlying assumptions, the latter corrects errors in order to maintain the status quo.

The findings on Strategy Planning were analysed further using Joyce et al Taxonomy of Planning Roles (1994). They have established four roles - Strategic Planner, Short-Term Planner, Informal Strategist and Evolutionist. Evolutionist was the predominant role played by owner-managers.

Chapter 11 concludes the thesis and presents implications and areas for further research. It suggests that helping agencies should develop programmes to train advisers to small businesses in the Learning-Decoding Approach. This would help owner-managers to develop the necessary competencies in the model and increase the probability of achieving commercial success.

Further research should occur to test whether the Learning-Decoding Approach is relevant to other sectors; and whether Mental Models are unique to each owner-manager or whether they can be classified and, therefore, whether Decoding and Testing could be taught.

CHAPTER 2: LITERATURE REVIEW - THE BARRIERS TO GROWTH

1. Introduction

This chapter reviews the literature which focuses on the pressures or barriers to growth confronting small firms. The factors which influence growth can be examined in two ways. The first is to explore those factors which are influential for small businesses which intend to be successful and grow rapidly.

Storey (1994) suggests three broad categories which overlap and impact growth in this manner. He categorises them by the headings of the entrepreneur, the firm, and the strategy. Fuller & Heslop (1992) lend support to such a view by suggesting that:

"the evidence available on small business growth suggests 'success' is contingent on many factors".

The alternative approach, in contrast to the one which deals exclusively with factors that influence growth, is to examine the barriers which inhibit small firms from growing, Storey (1994). This review adopts the latter course and explores eight obstacles found in the literature which prevent growth. They are set out below:

1. Lack of Marketing skills
2. Access to Finance
3. Industrial Relations
4. Training
5. Need for Independence of the owner-manager
6. Value systems of the owner-manager
7. Strategy Formulation
8. The Personality Factor

No attempt has been made to arrange the list in any order of priority; as no evidence of any has been found in the literature; although some are more popular than others. However, in line with the influences on growth there seems to be "..... little systematic understanding of which influences are important or how they interact and bear upon different stages of the growth process", Fuller & Heslop (1992).

These eight factors are in line with the top eight used in the Cambridge Small Business Research Centre (1992) survey of inhibitors to growth in small firms. Where differences were evidenced between the two lists, it was felt plausible to subsume them under one of the eight above. For instance, their survey indicated 'increasing competition' as a barrier; and this could be covered by Training or Strategy Formulation or even Values if the owner-manager did not wish to grow the firm.

Interestingly, of the eight factors to be reviewed, only Finance can be considered to be an external influence; the remainder are internal. Storey (1994) noted a similar occurrence in Barber et al (1989) study on barriers to growth that:

"One issue which emerged was the extent to which the fundamental barriers were internal - such as a lack of motivation - as opposed to being external to the firm - such as 'shortages' of finance, government controls, lack of skilled labour, etc."

Before beginning a review on each of the barriers, the definition of a small business is discussed. This is widely documented in the literature without a worthwhile definition being produced. Subsequent to this each of the eight barriers will be reviewed.

2. The Search for a Small Business Definition

There has taken place, and currently is taking place, a wealth of work on small businesses; yet there is a broad consensus that a definition does not exist, and is unlikely to be available in the foreseeable future.

Leah Hertz (1982) actually defines small business as:

"..... a business that is managed by not more than 3 managers or whose workforce does not exceed 100 persons".

However, there is no evident support for this definition in the literature, as Curran (1990) says:

"One problem is that there is no official definition of small enterprise which is widely acceptable or convincing on grounds other than arbitrary administrative convenience".

He goes on to say "... researchers themselves have not been able to agree despite almost 20 years of debate". In fact it is not possible to say there is a small business sector "... in the sense of an homogeneous across the economy set of economic units identifiable by distinct size characteristics which readily set them apart from other non-small units".

Goss (1991) lends support to this view when he states "if there is a single conclusion which arises it must be the exposure of the folly of treating small business as a homogeneous category".

Rainnie (1991) calls the idea of homogeneity simply bizarre. Rothwell & Zegveld (1982) reinforce this consensus "... the definition can vary from sector to sector or with the requirements of one policy initiative and the next". Nevertheless, Bannock (1981) argues that there is no cause for concern at the bi-polar ends of the large-small scale, i.e. its clear that IBM is large and "a small shopkeeper, a partnership of two solicitors are small firms"; however it becomes problematical as we move within the scale. His attempt at describing the small business is to explain what is common amongst them.

He sums it up by saying:

"Thus a small firm is one that has only a small share of its market, is managed in a personalised way by its owners or part owners, and not through the medium of an elaborate management structure and which is not sufficiently large to have access to the capital market"

Stanworth & Curran (1976) are critical of this view on a number of grounds; a key objection being that small firms can have a large market share. There is no good reason to assume otherwise.

Rainnie (1988), cited by Curran (1990), takes us away from the small-large debate. He sees the small business as "a dubious analytical category" due once more to the high degree of its heterogeneity. He argues that the environments of small firms are influenced by the larger organisations. And the small business-environment interface varies so much that many distinctive types of small firms are developed .

Finally, McNulty, Woods & Black (1993) in their research have distanced themselves from the reductionist school; arguing that it is more complicated than the simple small/large approach reductionists would have us believe. They show there are possibly three more contextual variables besides size, viz: locality, independence, and sector.

3. Review of the Eight Barriers to Growth

Each of the eight barriers will be discussed in the order presented in the introduction.

3.1 Lack of Marketing Skills

The most popular reason put forward as a pressure on small businesses is the lack of marketing expertise or awareness amongst small business owners.

Storey (1985) states that gaining visibility in the market place is a major problem for new start ups.

Mackintosh & Tynan (1994) see small and medium size enterprises as reactive, and due to their small customer base can complacently confuse "closeness to the market with insights into the market."

Smallbone (1990) lists the problems, in order of magnitude; firstly marketing or selling the product or service, and secondly financial control. He argues that lack of demand for the product signified inadequate planning and market research ".... and is indicative of a weakness which is found in far too many new businesses". He believes it's the most common issue faced by firms which survive and the single key reason for those that fail, as it is the cause of their lack of revenue.

Joyce, Woods, McNulty & Corrigan (1990) posit that the main barrier emanates from the market place if small businesses want to change. They found it was more important than the lack of capital.

"We are saying, however, that the market operates as a barrier on the autonomy of individual firms whatever the state of the economy".

Lack of foresight and strategic awareness of the need for marketing effort and expertise will impact this severely.

Proctor & Kitchen (1992) argue that small business performance will decline because of a lack of marketing planning and experience, which results in any sort of structured marketing model being ignored.

Oakey (1991) suggests that small businesses omit the need for funding the marketing cycle, especially when gaining access to funds is difficult. In fact, they are "particularly reactive with regard to marketing".

Cromie (1991) shows that during the stage of development frequently between the start-up and transition into sustained growth - most owner managers lack the skill sets to manage this transition. One of the factors ignored is the thrust for new markets:

"they secure sufficient sales to get the firm into business but systematic attempts to comprehend and analyse markets in the pursuit of new customers are often ignored".

Pratten (1991) also found that the main handicap small firms faced was in marketing and selling; suggesting that large companies had a more visible profile. Furthermore, he found that attempting to sell and market outside the UK revealed the "Achilles Heel" of the small firm.

"The downside of being relatively small and lean" suggests Robertson (1996), "can be lack of depth in certain specialisms (such as Marketing)".

With regard to high technology small businesses, Rothwell & Zegveld (1982) offer up a contradictory point of view, suggesting that small and medium size enterprises have a marketing advantage over their large firm competitors, as they do not have to overcome the inertia induced by bureaucracy; therefore they are able to respond rapidly to market changes.

3.2 Access to Finance

Storey (1994), citing the findings of Cambridge Small Business Research Centre (1992), identified two finance related issues as the key barriers to growth; first, the availability and cost of finance for expansion; and second, the availability and cost of overdraft facilities.

Burns (1992) states that "the subject of financing is full of paradoxes" due primarily to the small business owners' attitudes; they need finance from outside agencies but do not want their independence or control reduced.

Pratten (1991) also sees financial constraints as highlighting the small business owners' disinclination to let go of the control of his/her company. However, it is not just the possibility of losing control which stops them raising further capital, but the possibility that expansion could risk the capital already invested.

In a study undertaken by Pratten (1991) 40% of his respondents believed Finance was a barrier and 18 of them gave it as the primary constraint on growth, although Sales & Marketing topped the table as the most important problem confronting them.

"Finance operates as a constraint where firms could increase sales if they could finance the extra selling and marketing effort required and the extra working capital necessary to finance additional stocks and debtors".

They also saw lack of finance availability as slowing down their product development; and Binks & Vale (1992) reinforce this, believing, "it is well recognised that finance gaps act as a constraint on small business and entrepreneurship". In addition finance gaps are exacerbated by the barrier of information asymmetry. In fact

Stiglitz & Weiss (1981), cited by Burns (1992), claim it to be a key reason for the finance gap.

Information asymmetry is the "lack of information from and about each party". Binks & Vale (1992) see the equity gap as one product of information asymmetry and uncertainty; and Stanworth & Gray (1991) refer to finance gaps arising due to "imperfections in information flow".

Burns (1992) five country study showed that "companies in all countries thought providers of finance had only 'average-to-poor' knowledge of their business, industry and market, and provided only 'average' advice There is evidence of information asymmetry". Stanworth & Gray (1991) surface this barrier within the finance topic by noting that fixed costs are higher for small firms in the collection and analysis of information about "market opportunities, sources of finance, government regulations and so on".

The two key facets of information asymmetry - adverse selection and moral hazard - support the notion that the cost of information-gathering can be prohibitively high. Stiglitz & Weiss (1981) are cited as a reference that debt gaps also result from adverse selection and moral hazard issues. Binks, Ennew & Reed (1992) lend support to this viewpoint:

"This information unevenly distributed is effectively private to one party and can only be collected by the other party at a cost".

And the banks preparedness to contract for debt financing will be based upon the ease with which it can collect data about various facets of the project or firm. Where this occurs a capital gearing approach is employed which demands "100% plus asset-backed security".

To date it has not been possible to quantify the growth which is lost due to finance gaps; but wherever it occurs it severely wounds those small businesses with the opportunity for growth. However, Godwin (1993), citing a study by Wynant & Hatch

(1991), alert us that they found that small business owners made exaggerated claims about the information and was not a pragmatic evaluation of an inherent risk.

Binks (1991) argues that it is desirable to have a closer relationship between the banks and small firms, but is pessimistic about it occurring as the banks do not have the resources these days. But if it was possible then a clearer more accurate flow of data could occur between the two sides. And it would be feasible to introduce an income-gearing approach.

A longitudinal study by Woods, Blackburn & Curran (1993) with regard to relations with banks showed a more optimistic result. Further, they reported that adverse trading conditions generally did not negatively impact their relationship with the banks.

However Berry et al (1993), alert us that whilst bankers are endeavouring to build productive relationships through using visits, the data they collect is too impressionistic; and they lack the training necessary to undertake an effective analysis of such interventions due primarily to their education and acculturation process.

Bannock (1981) quoting Binks Law from Lloyds Review (October 1979) states that:

" The smaller the firm, the larger the proportional increase in capital base required to respond to an increase in demand, but the lower its ability to command loan and equity finance. Company expansion increases the availability of finance sources."

Binks, Ennew & Reed (1992) see the problem of financing debt as the most urgent issue. Wherever small firms encounter barriers in obtaining debt finance potentially effective growth may be lost. They believe the problem is not due to the firm's size but, once again, to the accessibility of information and therefore its higher costs of collection.

Storey (1985), citing Bannock (1981), reinforces this viewpoint by noting "... that banks find it administratively less costly to lend to a handful of large clients than to a myriad of small firms, each with a high risk of default and all whose performance needs to be monitored".

In addition, Bannock (1981) says it is almost impossible to start a small firm from external loans from financial institutions unless personal guarantees are offered for bank loans or premise leases: "To this extent the protection offered by limited liability is circumvented." Interestingly, Storey (1982) found new company founders (68%) started their businesses with personal savings rather than bank loans.

Scase & Goffee (1987) castigate the banks, saying they are too risk averse; demand too much from the investee (excessive interest rates and other security when one should be enough); are insufficiently adventurous in their lending; and should be more in touch with the pressures and problems associated with running a small business.

"... high street banks and other financial institutions, despite their publicity claims to the contrary, are not sufficiently in line with the needs of small business proprietors".

However, Hay (1992) suggests that if the banks relaxed "...the terms and conditions on which finance is supplied to SMEs" it is uncertain whether owner-managers would respond positively to this new situation. Their need, he argues, is to reduce financial exposure. In fact, "it is not the availability of finance *per se* that constrains growth" but this need for "financial self-sufficiency".

A further "spin-off" obstacle for small business owners who wish to grow is their apparent lack of experience in negotiating external funds - this presumably could be resolved by more effective management training.

Pratten (1991) dissents somewhat from the prevailing view by not seeing the shortage of finance availability as an indictment of the financial institutions. He found

in his study that many banks were willing to lend but drew back because they had not achieved a sufficient return on their investments. He comments that there is "tentative evidence that there are not a great many potentially highly profitable investments which are overlooked".

In summary, the banks generally are criticised because they tend to treat all small businesses as homogeneous - "as a mass market" whereas the evidence shows them to be otherwise, Stanworth & Gray (1991).

So it is not surprising that information asymmetry and its contingent problem of a lack of finance are barriers. However, Stanworth & Gray (1991) do see a "recognition of mutual benefits" beginning to take place between banks and small firms. In fact, with regard to the franchising industry, banking support is unquestionably "... the biggest single boost" to their prospects, Stanworth & Stern (1993); and banks are using it as the opening into small firms.

3.3 Industrial Relations

There is broad consensus that harmony within small firms is a myth. Storey (1982) points out that evidence to support any assertion that it will be more satisfactory working in a small rather than large organisation is doubtful. He cites Prais (1976) when he says the chance of conflict between people is not a function of size.

Goss (1991a) suggests that it is about power differentials when he says "... it is more plausible to interpret the *appearance* of industrial harmony as a *consequence* of the inherent imbalance of power between employer and employed, rather than as an indication of its absence". Just because employees appear to work harmoniously, should not be interpreted that they identify with the firm's goals.

Curran (1988) argues a similar case:

".... close relations between employer and employees are easily exaggerated: employees, often with the firm for only a short time, cannot be expected to develop the intense involvement of owner-managers.

Wishful thinking, especially when the very first staff are engaged, can quickly turn to disillusionment when employees leave without giving notice or fail to reach the standards the employer expects".

Goffee & Scase (1982) offer the notion that whenever the employer believes (s)he is dependent upon employee skills, adopting the appropriate management control strategy becomes crucial: in this case paternalism or fraternalism.

Curran (1990) adds further insights suggesting that small firm relations are contradictions which produce fault lines due to their market orientation:

"Market forces and other externally induced instabilities are likely to have a greater impact on the small enterprise because, typically, it has a low ability to control the environment. This means that whatever the quality of the personal relations between those in the enterprise, such relations are always under threat".

If it comes to a contest between the market and the personal relationship, the relationship is usually jettisoned. It is unreasonable to expect anything else.

Rainnie & Scott (1986) say no one cause can explain "... the apparent labour quiescence in small firms" and to try is "... doomed from the start".

"The point is that the harmony hypothesis disappears, to be replaced by a search for the factors that intervene between workers and their perception of exploitation. This, not size per se, provides the answer to the apparent paradox between the image of the small firm on the one hand as 'sweatshop' and on the other as 'beautiful'.

They go so far as to produce a model of their alternative view of industrial relations which shows the factors impacting the labour process. For instance, the small firm worker is more vulnerable than his/her counterpart in the large organisation for a number of reasons not least the owner's lack of inclination to communicate, but also the vagaries of the market place, lack of group power and so on.

Curran & Stanworth (1981 and 1986a) offer a similar viewpoint suggesting that employees in small firms will view relations with their management in a similar vein to their counterparts in large firms. Frequently it is to do with the cash-nexus relationship. They go further (1986b) by telling us that inappropriate assumptions are reached if we don't relate job satisfaction to the specific industry. It is an oversimplification to relate inversely the size of the firm and the level of job satisfaction because it omits crucial factors such "as the differing characteristics of the labour forces of small and large firms, and differences in the characteristics of specific industries which may also be related to size of firm".

What Rainnie (1985), Rainnie & Scott (1986), in studies of the clothing industry, showed was that the fierce competition in the marketplace demands tight control of the workforce by management. This opposes the notion that the climate in small firms is one of ubiquitous harmony. They observed both an autocratic style of managing, and systems, i.e. a piecework scheme, that militated against cooperation, commenting that this does not mimic a family atmosphere. They go on to tell us that the owner-managers emphasised the notion of family and teams; in fact a largely female workforce and the benefits of size tipped the scales to the management side in terms of gains and losses making the idea of team atmosphere redundant.

However, the dissenting voice of Ram (1991) argues that "...control in such environments is not as autocratic as Rainnie claims and flexibly negotiated nature of the employment relationship exists". In the setting that Rainnie was observing he suggests that you cannot ignore the notion of ethnicity.

Any consensus that harmony prevails in small firms is not surprisingly based almost solely upon the "... opinions and views of small firm owners. Harmony cannot be assumed because physically closer relations occur in small firms; the power imbalance evident between the owner/staff roles becomes crucial in 'the structuring of small firm relations' ". (Goss 1991a).

3.4 Training

Stanworth & Gray (1991) are unimpressed that current management training is truly beneficial "... and the effectiveness of training as a means of arresting decline and stimulating growth and development is open to question".

However, they argue that the smaller the firm the greater becomes the need for core skill training and the "problem of designing suitable training becomes more acute" Stanworth & Gray (1991). They suggest that those who will gain the most benefit from management training will be the small growth firm because it can boost the owner's performance.

Jennings & Banfield (1993), say that training itself becomes a barrier to growth if it is "poorly planned and unfocussed" because it does not meet expectations.

Goffee & Scase (1995) suggest there is a need for entrepreneurs to develop managerial skills, even though they may have previously held employment in large organisations. It is one of the factors "which are likely to hinder business growth, rather than lack of market opportunity or the inability to raise additional finance".

Goss & Jones (1992) warn that vocational training has slipped into a dreadful state especially when faced by more sophisticated customers and greater overseas competition. One of the major worries is that many small business owners view training as an expense rather than an investment.

They separate training based upon the firm's size into three sections: sophisticated; instrumental; and restricted training; where the first predominates in the larger organisations. They further distinguish firms by three managerial levels - monarchic, diarchic and polyarchic and "... point to possible relations of congruence between organisation structure and training patterns" but caution against seeing these levels as deterministic.

Curran & Stanworth (1989) in looking specifically at entrepreneur education raise several issues to be surmounted:

First: the attributes which make up entrepreneurship and their scarcity.

Second: the problem of getting training off the ground especially when small business owners are "antipathetic towards education in most forms"

and the training may endanger the special attributes which entrepreneurs have.

The major issue prevailing is that there is no body of research and knowledge about the topic.

They do say, however, that most new firms are not entrepreneurial when put against their rigorous definition. Thus, it becomes a simple case for business education to help them; but still problems have occurred around factors such as the length of programmes and perceptions between small business owners and teachers. Citing Gill (1985) they say that educators have tried to overlay one type of programme on too wide an audience.

Harrison & Lord (1992) say training is necessary for the daily functioning of the small firm and citing Chell (1990) reason that "the entrepreneur profile is not sufficient in itself to ensure growth.... what is needed is the development of a set of business and managerial competences which range from sound financial control to people, management and communication skills". Sadly a large proportion of the training material has been derived from the practices and methods used in large organisations and do not "... take account of the fact that management problems and practices are utterly different in the small business".

Interestingly Curran (1988) argues that there are sound reasons for making finance the key managerial function in small business training. He says that there is lots of evidence to say small business owners do not give the financial aspects of running a company sufficient priority, i.e. they do not develop business plans. More training focus is needed on raising finance and the day-to-day financial control.

Pratten (1991) saw sales and marketing as the key priority; perhaps equal emphasis should be given to training in both topics. Stanworth & Gray (1992) agree and add a third - finding new business.

What will determine whether training and support services are used by small firms is "coherence and consistency, quality and relevance, proactivity and inducement" Stanworth & Gray (1991).

Similar kinds of findings were raised by Joyce, Woods & Mills (1993) in their final report to SOLOTEC, particularly around the necessity of guarantees to enhance credibility.

The training issue increases in importance when the non-owning manager is introduced, who is responsible for running more of the small firm, Stanworth & Gray (1991). Because "there does appear to be some evidence that the types of individuals who are sought to occupy non-owning positions in the early stages of a company's life influence the development of the business". Indeed, if they have spent very little of their careers in large organisations, then focused and specific training and counselling will be required. Moreover, the need for training grows the smaller the firm becomes, Stanworth & Gray (1992).

3.5 Need for Independence of the Owner-Manager

The notion of independence is linked closely with that of personality: Kets de Vries (1977) sees entrepreneurs as deviants and marginalised people due to difficult childhood experiences "... unable to accept the authority of others and to "fit into" an organisation. The need for independence was thus firmly embedded into their psyches". Stanworth & Gray (1991).

Gray (1992) takes a non psycho-analytic view to Kets de Vries (1977) seeing owner managers' attitudes about growth, independence and being in charge as the influencers on lack of growth. These attitudes act as the key intervening variable in the stage development models of growth. Further, he differentiates fear of losing

personal control, as one type of losing independence, as against another of securing functional business independence through growth against competition by accepting loss of personal control. That is ,

“independence can range from a rather defensive ‘leave me alone’ to a more dynamic desire to ‘create my own enterprise’ ” Gray (1993)

In support, Storey (1994) comments that the owner’s motivation acts as a major influencer upon the performance of the firm.

Independence, then, is an expression that is interpreted in different ways by different people. The dynamic is between wanting personal control over business enhancement; yet to be successful personal control must be given up, delegation applied and interventions accepted from outside to meet financial needs. Growth is difficult “... without delegating authority and introducing more professional management styles.” (Gray (1990).

“Reluctance to delegate authority appears to create a strong barrier to growth” Gray (1990). In a further paper Gray (1992) goes on to synthesise a number of growth models under five categories; so that he can examine them alongside the owner manager's personal motivation for expansion and control, see Figure 1:

Figure 1: Gray’s Synthesis of the Five Stages of Growth

- | | |
|-------------|--------------------|
| 1. Start-up | 4. Professionalise |
| 2. Survival | 5. Transformation |
| 3. Take-off | |

He believes this life-stage model is useful for establishing where firms fit on the curve: especially as stages 1 and 2 will accommodate the greater majority of self-employed; and it indicates where interventions of management systems need to occur; because missing these interventions is why growing organisations go into decline.

Greiner (1972) calls this the evolution-revolution phases of growth: when crisis alerts the company to the need to make changes, i.e. in management focus, organisation restructuring, top management styles, control and reward systems; *"each phase is both an effect of the previous phase and a cause for the next phase"*.

Churchill & Lewis (1983) put forward a 5 stage growth model, concerned with existence, survival, success, take-off, and resource maturity. Each of these stages is characterised by size, diversity and complexity, besides a number of management processes. They believe it can be applied to all kinds of small firm situations. By knowing the stage of development a firm is currently facing helps the manager make better decisions, based upon valid information which provides for informed choice. This model lacks sympathy with the small firm, and "seems to fly in the face of empirical evidence", Gray (1993).

Watson (1993), takes issue with the stages model in favour of different sizes of firms, arguing "that it encourages the use of over-simple stereotypes of firms at different stages of growth...". And that it is naive to believe that small firms should alter their management style as they develop; "both entrepreneurial and professional elements" are needed at all times. He is powerfully persuasive when he says that the crucial issue with development of the business is not to do with any transition from an entrepreneurial state to a professional one, it is one of size; "where the mix of entrepreneurial and other management roles are carried out by one or two people with a limited or non-existent division of labour to one where they are carried out by a team of people with a significant division of labour". Furthermore the team needs to function like "an astute single entrepreneur/manager might in running a smaller firm."

Storey (1994) is unconvinced of the usefulness of growth models "... partly because the models describe, rather than predict". He perceives four limitations to these models, namely:

- (1) some firms never move further than the first two stages because they cease to exist;
- (2) firms may have no wish to progress up the growth ladder;

- (3) crises which growth theorists suggest prompt movement “..... has essentially remained an untested and possibly untestable hypothesis”;
- (4) management styles do not adjust themselves in unison with each growth stage.

Further, he argues for a three part classification when reflecting upon small firm growth; the three parts are:

“the starting resources of the entrepreneur(s); the firm; strategy”.

He cautions that the transition by the small firm frequently occurs in just one of the three parts. Further, the three parts function more as a system rather than as “wholly independent influences”.

Looking at this issue in another way:

Felstead (1991) in his research on Franchises suggests that potential franchisees should be aware that some franchisors give more scope for independence than others: there is a “.... fragility of the level of independence granted as it can be unilaterally modified or withdrawn at a moment's notice should the franchisor make contractual changes, be the subject of a take-over, or even close the operation down”. He alerts us that to uncover a franchisee's degree of autonomy “we really do need to look beyond the legal boundaries of the firm”, the relationship is grounded in market relationships and exchanges which can be modified at any time by the franchisor, Felstead (1993).

This needs further examination of the kind of characteristics needed to cope within this specific environment, especially as Felstead remarks that it is likely to become increasingly popular by the year 2000 as a way into small business.

Finally, if independence as a motivator is accepted it can benefit from applying Maslow's (1954) Need Hierarchy to it. Gray (1992) using Maslow's (1954) model says that the predominant motivation of new self-employed people is independence whether it be a “pull” or “push” factor (redundancy, recession, barriers to promotion and so on). Gray (1990).

The independence factor is usually regarded as an intrinsic motivator - the self-fulfilment of an inner need - as opposed to an extrinsic motivator which satisfies external needs, viz: material needs. Maslow's (1954) model helps in understanding that if a person was "pushed" into self-employment then (s)he would strive to satisfy the lower end basic needs of security; whilst a successful business owner, having satisfied basic and social needs (lower and middle needs) may seek self-actualisation away from the business.

3.6 Value Systems of the Owner-Manager

A value system is defined as that which "... represents a learned set of rules for making choices and resolving conflicts between several modes of behaviour or different objectives", McNabb & McCoy (1992), or is "a broad tendency to prefer certain states of affairs over others" Gibb & Davies (1990). As trait theory is being rapidly discarded, values are being used increasingly to derive a typology of entrepreneurs for instance 'the all-rounder', 'the pioneer', 'the organiser', 'the routiner'.

Whether this will prove more useful remains to be seen. In a different vein Goffee & Scase (1985) found that in family firms recruitment of external non-family employees is a crucial role; where people are not appointed solely on technical merit but as to whether the owner-manager feels there can be a trusting relationship. In other words, selection must fit the owner's values. A decade later they argued a similar case:

"It is for this reason that staff recruitment is a psychologically delicate and complex process in small firms. It is not a matter simply of selecting employees according to their technical competences; the extent to which they will fit into teams and contribute to harmonious interpersonal relations must be considered".

Goffee & Scase (1995).

It is widely accepted that small and medium business managers operate through their value systems; which in turn have a major impact upon the rate of the firm's growth. These value systems range from a fear of losing control and independence;

demanding a certain kind of lifestyle from the business to being profit oriented, McNabb & McCoy (1992). They continue by saying that "the relationship between the rate and style of business growth and the attitudes and value systems of owner managers is well documented". However, it is not truly understood due to the "complexity of the owner manager's value systems", and we do not fully understand those pressures which are key or even how they impact upon the growth process. What they believe is that growth is an increasing value as the small firm develops; but during the start-up phase growth can act as a constraining influence to permit control to be kept by the owner manager. Control then becomes a key value. McNabb (1993).

Moreover, Scase & Goffee (1982) remark that independence, as a manifestation of control, is a powerful driving force for owner-managers. The intensity of this force or value often turns into "self-exploitation", a form of serfdom.

Gray (1993) however, argues that the growth-motivated managers are more likely to reduce their level of independence and release control if their focus is a business or economic goal; whilst managers with a lifestyle-motivation are not; "Given the fact that growth implies an evolution to more devolved management, it is not surprising that growth-oriented owners are twice as likely to be delegative than growth-averse owners".

3.7 Strategy Formulation

Chell et al (1987) say: "the obstacles to competitive performance are implicit in the cognitive thought processes which underpin strategy formulation." They believe it is how the small business owners perceive their situation and the extent of their awareness of environmental competition that acts as the agent for strategically positioning the firm.

Gibb & Scott (1985) offer a similar viewpoint drawn from a 2 year study they made of 16 small firms: "This indicates clearly the absence of formal planning models but

underlines the importance of strategic awareness and personal commitment of the owner manager in pursuing particular objectives”.

Employing the notion of competitive positioning and Johnson’s (1985) strategic recipe, Chell et al (1987) lay out the following model of competitive strategy (see Figure 2):

Figure 2: Chell’s Model of Competitive Strategy



An issue linked with the problem of strategy formulation and which presents a more specific barrier to small firm growth is Foxall's (1987) strategic problem of product gaps, which occur when:

"Small firms are faced with extending their product base through innovation when the existing product(s) can no longer ensure that the economic objective of the firm will be fulfilled".

He argues that strategic awareness by the owner-manager is important if (s)he is to understand the growth of the organisation.

Joyce et al (1996) would put the case much stronger for strategic awareness and planning. The evidence from their work opposes those who criticise both the need for strategic management and who reject the “..... importance of managing innovation”. They have uncovered three benefits which accrue from strategic planning: first, that it motivates managers to act; second, that it increases organisational productivity; and third, that it appears to concentrate the minds of managers which, in turn, accelerates

innovations in product development; whereas, in contrast, a lack of formality places product innovation on a much slower course.

Goffee & Scase (1995), referring to professional partnerships, suggest that strategy formulation poses problems of communication, information flows and decision-making which may be at the mercy of partners' hidden agendas and vested interests. They say:

“Strategy formulation will be the outcome of bargaining between interested parties and there will be little in the form of a coherent ‘core’ which can integrate these into a long-term business plan”.

These perceptions and motives of partners fit within the Internal Mediators component of the Chell et al (1987) model.

One result could be, as Chell et al (1987) suggest, that cognitive thought processes such as these may constrain performance.

Goffee & Scase (1995) suggest another route, which could have a similar outcome, when they say that these small businesses will react to the market rather than follow thought-through strategies based upon environmental scanning. And “only after significant growth is it possible for such businesses to devote the resources necessary for strategic planning”.

Hay (1992) would support these views. The initial findings of a pilot study he undertook showed that strategic vision is blurred due to the reactive nature of SME management:

“..... such is the pressure of SME management that everyday operational concerns absorb the greater part of management's time and attention, thereby narrowing its strategic vision and perception of what is happening outside the firm”.

Storey (1994) suggests that formal planning is a large firm pursuit and that it is unclear whether it enhances growth.

On the other hand, Joyce et al (1996) believe that a link exists between commercial success and planning. They argue that small businesses should plan both in a formal fashion and for the long term. They would agree, however, that Strategic Planning is different in the small business compared to the large organisation. And they propose that "Strategic thinking and thinking longer term is probably what matters in the small firm".

They believe the climate of the 1980s, which produced the chaos paradigm, is changing in the 1990s to one which will demand that owner-managers will need to provide the firm with intellectual leadership.

3.8 The Personality Factor

Personality is well-documented as an inhibitor to growth.

Stanworth & Gray (1991) posit that there appears to be a clear set of behaviours which characterise entrepreneurial actions; "... the presence and perception of an opportunity, and its imaginative exploitation through skilful deployment of resources in pursuit of the realisation of a vision of what the business might become".

This seems to link neatly with Casson's (1982) model of entrepreneurial qualities, as cited by Khaw Teik Kooi & Martin (1990), who say that out of the ten qualities the key entrepreneurial ones are imagination and foresight and that the bulk of small business owners are therefore not entrepreneurs.

Curran (1990) suggests that the personality factors of independence and autonomy can "result in ill-defined organisational structure with poorly defined roles, a high level of centralised decision-making and little forward planning". Such that employees feel disenfranchised.

Goss (1991) posits that there is no common understanding of what the characteristics are of entrepreneurs. He quotes several writers who suggest that there are at least 20 personality characteristics which differentiate entrepreneurs from others. The general

view of the personality theorists is that the behaviour of entrepreneurs is a function of their personality traits, and not as an outcome of the social environment Kets de Vries (1977), as cited by Goss (1991); and McClelland's n-Achievement (1961).

Some posit personality is derived from early childhood, others that economic conditions produce certain types of personality. As Goss (1991) says, this reverses the direction of its cause.

Currently, the notion of personality is being subsumed under the integration of both avenues of belief.

Conclusion

Eight factors have been identified as barriers to growth. Because small businesses are not a homogeneous group and no satisfactory definition of small has been forthcoming it suggests that the eight factors cannot have equal relevance for each business. Different factors will be more significant with different sectors.

Lack of marketing skill along with access to finance are popularly accepted as two key barriers. Marketing often is an after thought performed in a reactive manner. Whilst the problem of information assymetry and the posture taken by the banks helped to produce a finance barrier.

Industrial relations mimicked the large organisation situation; in particular the notion of harmony was dispelled.

Training was considered very necessary but was poorly planned and carried out by the helping agencies. Too often programmes had been borrowed from the large organisation sector.

The need for independence was interpreted in different ways and linked to delegation. An attempt was reported to link it to the stage models of growth. However, these

models were dismissed as over simplified. Finally, it was examined as an intrinsic motivator and shown how it influences the needs owner-managers seek to satisfy.

Value systems identified growth as an increasing value as the firm develops but often as a constraint during the firm's early life due to the need for independence.

Strategy Planning was linked to a sense of strategic awareness not to formal planning. Overall it was found that strategic planning was not a small firm pursuit.

On the subject of personality the literature, however, is contradictory, with some researchers propounding the relevance of personality characteristics, and others relegating, and even devaluing it, in favour of a more sociological posture, i.e. a social action emphasis.

The Social Action model has gained prominence with its three latent social identities; the artisan, the classical entrepreneur, and manager identity. Stanworth & Curran (1976).

Goss (1991) lends support to this with his managerial orientation and vocational attachment which describe four types of owner-manager styles. For instance, traditional, techocentric, marketeers, and isolationist. This points up the heterogeneity of the topic that small business owners can have very different aspirations, needs and motivations. As such those with the artisan identity may not look for growth even if it is available in case it destroys their independence, autonomy and so on.

Stanworth & Curran (1976) suggest a Social Action perspective:

"it takes the standpoint that definitions and means attached are , *'socially generated, 'socially sustained' and..... 'socially changed'* .

In other words, a social action perspective here links the meanings and actions of the small firm's participants with their wider social environment".

If we accept Social Action theory then a number of issues are resolved, not least why growth is not common amongst small businesses.

To undertake research on the barriers to small firm growth it will be necessary to examine the small business owners' managerial competences in terms of managing both his/her internal and external environments. These will differ sector by sector.

Chapter 3 will continue with the literature review but will focus solely upon the organisation theory literature. In this manner, it will identify the major influence of the environment upon firms - both macro and small. And will assist in developing the hypothesis to be researched.

CHAPTER 3: LITERATURE REVIEW - ORGANISATION THEORY

Introduction

Before setting down how the problem of growth for small firms will be addressed, a brief review of the literature on various approaches to organisational analysis will be undertaken. It was felt necessary to include this as much of the research focuses on the small firm's inclination and ability to transact with its environment; that is to scan it for signals and cues and take them and adjust its posture accordingly. The review of the organisational literature was helpful as it highlighted the emphasis put on environmental impact, but less on learning how to adjust to it. This was instrumental in producing the notion of the Learning-Decoding Approach - the hypothesis to be researched.

Part 1 will cover Open Systems; whilst Part 2 will review four approaches which have taken research far beyond the practical application of Open Systems. After each part a critique will be presented of the approach used. Finally, Part 3 will conclude with a view of how the barriers to growth for small and medium size enterprises will be addressed.

Part 1 - The Open Systems Approach

Kast & Rosenzweig (1975) state that open systems theory offers a new approach to management for studying organisations, "... it does provide a fundamentally different view of the reality of social organisations and can serve as the basis for major advancement in our field". What it has done successfully is relegate the impact of closed system analysis from the debate on organisation theory. Emery & Trist (1969a), Elling & Halebsky (1961) suggest that placing emphasis on the external relationship between the organisation and its environment enhances our knowledge of organisational problems.

Based upon von Bertalanffy's work (1969), Katz & Kahn (1969), Rice (1963), Emery & Trist (1969a), Miller & Rice (1967), Chin (1969), suggest that the most utilitarian model for understanding and analysing organisations is a system which transforms its inputs into outputs and exchanges them with its environment; the

system regenerates itself or maintains a steady state, while accomplishing work, by incorporating a feedback loop from its output exchanges with the environment.

Katz & Kahn (1969) argue that we should start with the notion of the organisation as a system and "... not with the rational purposes of its leaders" .

Emery & Trist (1969b) add a further factor which helps account for "... those processes in the environment itself which are among the determining conditions of the exchanges". They call it "the causal texture of the environment".

If our comprehension of organisations was extended by viewing them as open systems; it was further enhanced when researchers incorporated the notion of the socio-technical aspect.

As Cherns (1976), Emery & Trist (1969a), Trist (1969) say, all organisations are socio-technical systems that are inextricably bound together. An organisation's goals are more readily accomplished if both the social and the technical features are balanced, instead of overemphasising one at the expense of the other.

Warmington, Lupton, Gribbin (1977) suggest that open socio-technical systems analysis presents us with a useful appreciation of behaviour patterns and their causes within the system.

As Trist (1969) says, whichever way you approach your intervention you will be forced to confront the two factors. "... one starts on a piece of research socio-technically, sooner or later one finds oneself using open system theory, implicitly or explicitly. Similarly, if one's original approach to a problem is in terms of open system theory, our finding at any rate is that one ends up with a socio-technical rather than purely social analysis".

To further our appreciation of organisations using open socio-technical systems it is helpful to focus attention on two aspects: the primary task aspect; and the environment aspect.

The Primary Task

Thompson and McEwen (1973) state that goal implementation is a function of understanding the interface of the environment with the organisation, and accepting that any change to one of them means the objective or primary task probably has to be modified.

This presupposes that the environment has some influence and control within the organisation; and that organisational goals develop from an exchange relationship of the firm with its environment, as well as from within the firm. Levine & White (1961) call goals: "the domain of an organisation ... it wishes to pursue"; that is what it stakes out for itself in the environment.

Rice (1963) argues that it is only possible to understand and define the primary task when we understand the constraints that are derived from the interface and interaction of the environment and the organisation. And you can reconfigure the situation, that is redefine the organisation's performance by altering the constraints.

This suggests that the primary task, as Miller & Rice (1967) put it, is the task that the organisation "... performs if it is to survive", can change over time. Emery & Trist (1969a) caution us that the right choice of the primary task depends upon the type of relations the organisation has with its environment; and it "may vary with:

- (a) the productive efforts of the enterprise in meeting environmental requirements;
- (b) changes in the environment that may be induced by the enterprise; and
- (c) changes independently taking place in the environment".

Interestingly for small and medium size enterprises, Miller & Rice (1967) posit that if the organisation has several primary tasks and no practical means of setting priorities, each impacts and acts as a brake on the others' performance. Indeed, they

say, it can be difficult to even uncover the primary task of an organisation: it "... has to be inferred from the behaviour of the various systems of activity".

Finally, secondary goals and objectives can find themselves substituted for the original primary task for a time. This occurs with the self-employed whose need for independence and autonomy can adversely affect the growth of the business.

The Environment

Organisations that can pick up the signals and interpret them correctly as they emanate from their environments; and thus learn about the texture of their environments are in a better position to respond to its demands and so avoid disaster, Thompson & McEwen (1973).

Terreberry (1968) gives another description of the environment, especially a turbulent field, as one in which the effect of interaction has accelerated and become highly complex and is swamping the organisation's ability to cope. He goes on to say that the organisation's adaptive skills and capacity are "... inversely related to its dependence upon instinct, habit or tradition".

He continues by saying"that other formal organisations are, increasingly, the important components in the environment of any focal organisation". This is an important point as it is a forerunner to research into interorganisational analysis.

In terms of applying open socio-technical systems, Emery & Trist (1969a) say that managers should monitor and manage the boundaries of their organisations with their environment. Singer et al (1979) using small group theory reinforce this viewpoint: "the major leadership function of a small group event, as in any organisation, institution or enterprise, is the management of its boundaries both internal and external".

Child (1973) takes a different view arguing that the environment of the organisation cannot be properly defined without understanding the objectives of the firm's

stakeholders and the mechanisms they implement to reach their objectives. He goes on to say that decisions about the design of the organisation are a function of performance subject to the notion that the performance level is not greater than the goal. If this happens then personal needs can predominate even if they increase the cost burden on the firm. He argues "... that strategic choice is the critical variable in the theory of organisations". Although he is essentially looking at large organisations and organisation structures his views have a certain resonance for small and medium size enterprises, especially the self-employed, in how they can view their work world. This view of personal needs has a certain attraction in reflecting what can go on, and allied to a wider study of the environment to follow, will assist in the development of the research hypothesis.

Conclusion

The literature is extensive on the use of open systems theory for understanding the enterprise. In fact, Chin (1969) goes so far as to remark that some system theorists hold the system model "... as universally applicable to physical and social events, and to human relationships in small and large units".

However, further research has shown that lots of organisations should not be seen as technical systems; that is, no organisation is simply a technical system. In fact, Scott (1992) says:

"Externally it was noticed that many organisations 'adapted' to their technical environments by attempting to suppress or escape from them; internally it was rediscovered that many administrative arrangements have little or no impact on production activities, loose coupling was reported between organisational structures and participant performances".

Throughout Part 1 the open systems approach has been discussed, an historical view of this topic is necessary in helping to appreciate how, and to where, organisational analysis has progressed.

Van de Ven et al (1980) say this was worthwhile because it provided the "... underlying rationale for the existence of interorganisational activity".

The conclusion of open systems heralds the start of work on interorganisational analysis. But before this occurs a critique will be undertaken of the concept of open systems.

Critique of the Open Systems Approach

The open systems approach is limited for a number of reasons.

First: the advocates of the theory produced their work based upon a single organisation in horizontal relationships with those it had entered into transactions with. It ignores the notion of vertical linkages with other organisations and avoids the process and fabric of networking among organisations in the wider environmental system. What Scott & Meyer (1991) refer to as the institutional elements.

Second: it fails to address the propensity organisations have for developing "structural inertia", Hannan & Freeman (1978), which limits an organisation's ability to be flexible and be able to adapt to its environment.

Third: it does not take account of variations in performance, adaptiveness or flexibility between various organisations. Simply it asks us to accept that environmental uncertainty and turbulence produce dependency relationships. But it neglects to measure the degree or extent; or refer to what constitutes the environment. And in dealing only with environmental uncertainty it ignores the idea of environmental munificence, whereby the environment could have the capacity and ingredients to provide for survival and growth.

Fourth: it ignores the political features abounding in an organisation when people disagree with its goals and alignment; often resulting in a battle for control and influence, Pfeffer (1978).

This limitation presents the organisation as a forum in which organisational members interact with each other, frequently, in a non-rational, non-open decision-making manner. The paradox of this lack of openness can also be seen in another way: for example, in homogeneous boards or teams which seek consensus at any price - Groupthink, Janis (1978) - the result is usually poor quality decisions.

Fifth: it ignores "the liability of newness", Stinchcombe (1965), and the founding conditions which impact new organisations, viz: lack of legitimacy, limited resources, and the pressure for key members to learn strange new roles and develop quality relationships both within and outside the enterprise.

And finally sixth: open system models omit the impact of the social and cultural environment, of the wider systems of relations in the environment: these can "influence its functioning no less decisively than can its technical environment", Scott (1992).

Part 2 - After Open Systems

Introduction

During the 1970s the emphasis changed to where the environment dominated the technical viewpoint.

To date there is a consensus on the key role the environment plays in organisational life but "... there is little agreement about how the environment is to be conceived or which of its features are most salient", Scott (1992).

Throughout Part 2 a discussion and critique will be undertaken on a number of approaches, namely:

(1) The Population Ecology Approach - where organisations compete in an environment consisting of fields or resources, whose structure governs the organisation. The analogy is with biology.

(2) The Resource Dependency & Network Approach - which is a less specific version of (1). This approach suggests organisations network or link to others in the

environment in order to protect the availability of resources and ensure their survival; "it is *not* an alternative to the population ecology model but rather a specification of how authorities and members behave within the constraints set by the environment", Aldrich (1979).

(3) The Institutional Environment Approach which Meyer & Scott (1992) insist is "... equally and often a more important basis of structure": comprises not only the networks but also the culture (beliefs, systems and rules) of wider society. Institutional theory sees organisations as acting out the rationalised myths of their wider environment, Meyer & Rowan (1977).

(4) Postmodernism is a paradigm which suggests that there are no meta-narratives; that organisations are always in process of becoming, never of being.

(1) The Population Ecology Approach

"The Population Ecology model represents an attempt to explain the *process* underlying change", Aldrich (1979). It proposes the idea of natural selection in which organisations are in the process, continuously, of trying to fit their environments, which in turn are in the process of changing and promoting changes within organisational populations.

Here the focal point of analysis is of groups of organisations which inhabit the same environment but are unable to adapt consciously to it because the market reigns supreme; and as the market cannot be "bucked" organisations are selected for growth or death. Population growth is limited by the capacity of the environment; and environments are highly differentiated, that is, made up of specific niches. In other words, density (carrying capacity), legitimation and competition have a significant part to play in the size of population ecologies, Hannan & Carroll (1992). Furthermore founding firms, and the question of whether they remain healthy, is impacted by a "U" shaped process of legitimation and competition: the former being of crucial importance when the population is small; and the latter when it is large, Hannan & Carroll (1992).

Population ecologists argue that as environments are so variable and complex organisations cannot garner sufficient good data about them; so luck and chance play

an important part. Link to this the notion of organisations competing for niches of survival in the environment; and the idea of selection by the environment, not adaptation to it, is reinforced.

Hannan & Freeman (1978) , Hannan & Carroll (1992), suggest that organisations have a serious difficulty in adapting to environmental impact. Morgan (1990), citing Hannan & Freeman (1978), says the important factor is what the newly formed organisation does during its first few years before 'structural inertia' attacks it. This idea of inertia derives from Hannan & Freeman's (1978) work, namely:

- (a) the investment in various aspects of the enterprise which cannot be easily transferred;
- (b) the lack of comprehensive information available to decision makers;
- (c) the political aspects emanating from the change process which may encourage decision-makers to maintain the status quo and not be dragged unwillingly into internal strife; and
- (d) changing the firm's culture, norms, standards or procedures may be too costly; for instance any legitimacy the enterprise may have developed in its environment can possibly limit its ability to adapt.

In addition, external factors can also increase the forces which make inertia appealing.

Stinchcombe (1965) offers a different perspective. He noted young start-up firms were more likely to collapse due to their inability to learn new roles, develop trusting relationships fast enough, or have sufficient legitimacy in the marketplace. To explain this he coined the phrase "the liability of newness". Consequently it appears that the conditions of start-up can affect organisational growth. However, more recent research by Bruderl & Schussler (1990) challenge this notion and argue for a 'liability of adolescence' when 'individual firms face an adolescence, during which mortality is very low'. It is only following this time that mortality rates rise then decline again.

Romanelli (1989) reinforces this point of view suggesting that young firms can defeat the problems of starting up by timing their birth to match the market, and secondly by tailoring ".... their resource acquisition strategies to conditions of environments".

Population ecology argues that "organisations which survive for any length of time survive because, in their early stages, they fit an available environmental niche, not because they have been consciously adapted", Morgan (1990).

This would support the start-up self-employed business mentality which can begin because of redundancy, disenchantment with existing employment or having "learnt the ropes" by being employed in a small business. What Keasey & Watson (1993) refer to as "push and pull" motives. However, mortality occurs because new firms have to depend on "cooperation of strategies and have low levels of legitimacy", Westhead et al (1993). In their study of independent high-technology firms they reinforce the Population Ecology perspective of increased legitimacy producing higher levels of stability and survival. Their empirical data showed that older firms with larger headcounts were better positioned to survive. Kanter et al (1992), believe that "such theories of 'random mutation' and 'natural selection', with their emphasis on luck rather than leadership and happenstance rather than strategic decision, apply best to small organisations in industries crowded with them". Its potency as a theory vanishes when applied outside the small firm arena.

More specifically, Population Ecologists conceive of the environment in two ways - (1) as "coarse-grained"; and (2) "fine-grained".

This builds upon Emery & Trist's (1969b) four environmental states by including the dimension of either frequent changes, or major changes which occur much less often. And any strategy which is picked to match the environment is reduced to a gamble; ".... and can only be rationally planned at the edges", Morgan (1990). The organisation chooses the way ahead, but the environment chooses the result, Hannan & Freeman (1978).

What is of particular interest with regard to small firm growth issues is Morgan's (1990) comments, citing McKelvey & Aldrich (1983), that organisations have aims but due to the ambiguity and variability of environment it is unlikely that any particular individual would perceive them accurately. They put forward four guidelines: Variation, Selection, Retention and Struggle, and they encourage managers to use them in a balanced manner as the best means for ensuring survival of the organisation.

Conclusion

Population Ecology argues that the environment is filled with uncertainty and this affords it the power to deprive organisations of influence over it; and thus over their own destiny and survival. By adopting a Darwinian perspective it suggests that selection not adaption is the key process undertaken. It is during the founding phase that an organisation has the opportunity to survive over the longer term if it manages to satisfy an open and current niche in the marketplace, and not because it has deliberately adapted itself.

Critique of the Population Ecology Approach

Although Population Ecology is a useful addition to the armoury of organisational analysis, it has a number of limitations. As Aldrich (1979) cautions survival of the fittest is a "simple-minded application". If luck and chance apply then no guarantee can be offered that the fittest will survive always. As he remarks "equating 'fitness' with 'survival' would rob the model of any claim to scientific status and reduce it to tautology".

Simply put it fails to recognise that organisations want, and actively search for ways, to reduce the uncertainty of their environments. To ignore these processes is naive - it quite emphatically fails to view the environment as a social process that involves people - it neglects people altogether! As such it ignores the fact that people can learn and reflect upon their behaviour, Morgan (1990).

"Treating concrete entities as if they were analogous to abstract concepts such as species is, from an ecological point of view, erroneous", Clegg (1990).

Further, Population Ecologists cloud their work with confusing definitions: for instance the population of organisations is equivalent to species of organisations; however the former is a frequency distribution, and the other "...is a collection of forms - in biology, one that can interbreed, that is, constitute a gene pool", Clegg (1990), citing Young (1988). Other definitions can be attacked similarly.

Its main thesis is that the market dominates but it seems to overestimate the problems and barriers to managing the marketplace; it "... sees the 'automatic' economic processes (the hidden hand) where in fact there are social forces at work", Morgan (1990). Quite categorically it devalues the power and influence of an enterprise to mould its environment: and it fails to become an effective substitute for the intentionality of organisational life and the power and influence of the individual and the group on the end result of the firm, Morgan (1990).

In a similar fashion, Mintzberg (1983), says that the design of organisational structures is not solely a function of size, technology, age or environment, but also of power factors - referring to them as 'pulls' - which "seem to cut across all levels of the structure".

This can be supplemented by liberally borrowing from several researchers critique of a different organisational theory - the Market and Hierarchy Approach. For instance, Clegg (1990), citing Perrow (1983), suggests control, power and power coalitions must be accounted for when considering transactions of organisations with the environment.

Population Ecology explains itself using an efficiency perspective; but as Clegg (1990) says, other perspectives such as Institutionalism and Power "...treat the efficiency arguments with scepticism",

By overstating the case for market and competitive processes, it under-emphasises those processes which help to lower environmental noise, such as cooperation and coordination amongst organisations. The theory ignores inter-organisational linkages, Kanter et al (1992).

"Whereas most population models stress that organisational forms are selected for survival by environmental forces, they also presume independence in the units comprising the population; relations or connections, among organisations within a population receive little attention", Scott & Meyer (1992).

It ignores the capabilities of organisational leaders to influence performance, Eisenhardt & Schoonhoven (1990); besides failing to recognise that those who start up new organisations have goals and aims; it is not usually a haphazard process - intentionality is a core feature of organisational existence. Furthermore, it fails to recognise, as Miner et al (1990) point out, that due to buffering and transformational shields "... organisations can escape some of the costs of organisational transfer" and induce organisational learning through experimentation which helps the organisation to adapt to different situations. Buffers protect an enterprise from environmental pressure because of the manner in which it networks itself.

By not taking into account how organisations could use their power and position in the marketplace, through legitimacy or length of time, it ignores the perspective that organisations can focus on the overthrow of others, Morgan (1990).

Finally, some of the advocates of population ecology tell us to ensure plenty of change in organisations if they are to stand a chance of being selected. This view reifies organisations and ignores the fact that organisations are simply made up of people whose morale, performance and commitment could be adversely affected by change not grounded in business issues.

(2) The Resource Dependency and Interorganisational Networks Approach

This perspective suggests that organisations seek to control the environment by linking with other organisations to enhance coordination of their tasks, Morgan (1990). And it is not simply through necessity that an organisation transacts with its environment; choice also plays a part:

"By reaching agreements with other organisations, by gaining knowledge of the environment, by creating coalitions of interest with other organisations, organisations are able to reduce their vulnerability to environmental changes".

Pfeffer (1991) sees it in a similar manner, arguing that institutional management - the focus on environmental interdependence and uncertainty - represents a crucial organisational function.

However Aldrich (1979) argues that a crucial characteristic of resource dependency is power. Where organisations aim to manipulate to their advantage a dependency situation, or avoid it altogether.

In terms of new small firms their health is "...directly related to each firm's ability to gain access to predictable uninterrupted supply of critical resources", Westhead et al (1993). Naturally if small and medium size enterprises do not employ the correct strategy they will die. Survival depends upon diversification and differentiation through positive adaptation.

Miner et al (1990) see it as resource buffering, "... an intervening factor that insulates an organisation from environmental disturbances" and is concerned with protection through having the opportunity to avail themselves of technology, information, material and funding.

Van De Ven et al (1980) see it as a collection of organisations which transact with each other because they find it difficult, if not impossible, to farm their resources, in order to accomplish their goals without help; so they are forced into relationships.

Hage (1980) defines a network as "... all of the groups and organisations as well as the consumers (who usually are not organised into either groups or organisations ...) associated with a particular production system designed to service some client or customer".

These networks are power and influence forms: the linkages reveal both dependencies and strengths. In this manner the environment is tamed; and can be rethought of as other organisations in the same space, Morgan (1990).

This is a useful methodology, as networks can comprise many different kinds; for example, as one central customer linked to various suppliers; directors of several companies, as partners with venture capital firms, interlocking directorates, sponsorships and so on. The leitmotif of interorganisational networks is the employment of power and the search for information. Which encourages organisations to form coalitions and so stretch over their immediate organisational boundary and reduce the threat of the environment towards them. Key organisations, and therefore people, are intent on maximising their power by controlling other organisations.

So resource dependency theory, as its title suggests, is concerned with gaining access to scarce resources: consequently dependencies are formed. It proposes that, as organisations are driven towards controlling their environment, their position in the network highlights their comparative influence and power. In essence it "...posits that organisations attempt to avoid becoming dependent on others and seek to make others dependent on them", Aldrich (1979).

In fact, when one organisation tries to control its environment, it acts as a brake upon others; and a sort of zero-sum game can occur; and power is found in the dependency of others, Aldrich (1979). Which suggests that power is dynamic, and moves and changes as the organisations and their networks change.

Clegg (1990), citing Mintzberg (1983), believes organisations are stages on which power games are enacted; in which people act out various roles of influencers from both inside and outside.

Interorganisational power and the control of any scarce resources are inextricably linked, Aldrich (1979); and organisations which prosper could have increased their power vis-à-vis others in the environment, Morgan (1990) citing Perrow (1983).

Critique of the Resource Dependency & Interorganisational Network Approach

The primary limitation of this model is that it looks predominantly, if not totally, at lateral patterns of relationships between organisations; and between organisations which do not have any authority or power over those they are linked with. It omits the effect of influence from elsewhere in the environment and focuses, solely, on the immediate local domain, Scott & Meyer (1992).

Currently research has moved towards ".....the importance of the institutional environments of organisations", Scott & Meyer (1991).

Several more weaknesses arise: first, resource dependency does not account for the many different kinds of networks that abound; and second, it neglects to deal with the depth and strength of the linkages, Morgan (1990). It views networks as formal mechanisms, rather than seeing some, if not many, as informal without any permanent structure; which can be rapidly superseded or stopped. Contacts, rather than networks, would be a more appropriate description.

It examines relationships and transactions only among organisations which are in the same geographical area and it focuses on those relations and not the organisations themselves.

Further, Clegg (1990), citing Fligstein (1985), suggests organisations conform to certain forms not because of efficiency but because they are obliged to. It is wise to take into account people's reasons for making the decision to move to other

organisational forms rather than just accept it is due to the benefits and advantages of efficiency. Moreover, Clegg (1990) argues that where organisation structures resemble each other, it is not to do with ecology nor product market influence, nor even size nor technology, it is because they are cultural objects permeated with value.

(3) Institutional Analysis Approach **(Environments as Cultural Systems)**

Meyer & Scott (1992) point out that -

"Environments are more than stocks of resources and energy flows; they are cultural systems, defining and legitimating organisational structures and thus aiding in their creation and maintenance".

Seemingly, institutional environments comprise not only networks of relationships but also belief systems, norms and rules of behaviour that emanate from the wider environment of society.

Scott (1992) refers to them as 'rational myths' "... in the sense that they identify specific social purposes and then specify in a rule-like manner what activities are to be carried out or what types of actors must be employed to achieve them".

These beliefs are myths simply because they need others to share them before they can become accepted and real.

Meyer & Rowan (1977) define institutionalisation as "the processes by which social processes, obligations or actualities come to take on a rule-like status in social thought and action". It is argued "... that the elaboration of these rules provides a normative climate within which formal organisations are expected to flourish, Meyer & Scott (1992).

Typically any organisation which is produced from this theory is dependent upon a belief system and a relationship network. For example, a belief system that spawns a financial system will more than likely be different from one that spawns a change in hospitals, the police force, or in the school system.

Put another way, it could be said that small firms which negotiate contracts with powerful organisations may be forced to adopt their ways of doing things, Meyer & Rowan (1977).

Interestingly what they believe is that organisations fail when they ignore or do not adopt the institutionalising myths because their legitimacy is brought into question. On the other hand, they do recognise that some organisations must manage their internal relations and boundary relations in order to exist; whilst others must meet the ceremonial focus of their highly institutionalised environment, Meyer & Rowan (1977).

Due to the erosion of many markets, because of the increase in organised and interconnected environments, the adaptation of an organisation to its environment cannot be undertaken solely on the basis of efficiency. Organisations small and large alike look for institutionalised rules to buffer them from vulnerability.

In fact Miner et al (1990) identify and define institutional buffering as the protection which arises from the legitimacy of being linked to another high profile organisation, or general public expectations.

Helpfully, Meyer & Rowan (1977) developed a continuum on which organisations can be placed; starting from a position where organisational success depends upon managing relationship networks and ending with the institutionalised organisation, where success is dependent upon stability and confidence through matching institutionalised rules.

"The first and most general assumption is that the environments of organisations are themselves increasingly organised", Scott (1992a). Organisations do not go into competition as single standalone units, but as part or members of larger systems. "As one shifts from organisational to interorganisational level and back again it is important to realise that stability and flexibility of performance at the field level are likely to be associated with looser rather than tighter coupling and with some

duplication and overlap of functioning among component organisations", Scott (1992a).

Scott & Meyer (1991) have taken this a stage further pointing out that upward linkages are more important than horizontal ones. Using this as their base they develop their ideas into sector organisations; differentiating between technical and institutional environments; the first governing outputs over the organisation and the latter being "... characterised by the elaboration of rules and requirements to which individual organisations must conform if they are to receive support and legitimacy ... whatever the source, organisations are rewarded for conforming to these rules and beliefs" they are not rewarded for their outputs, Scott (1991) but for "social fitness", Powell (1991).

Technical and institutional environments do live side-by-side and Scott & Meyer (1991) cite Scott's (1987) classification which helps place organisations in various quadrants of strong to weak institutional and technical environments. For example they see banks and hospitals as being located within the strong-strong technical/institutional environments and pharmaceuticals within the strong-technical and borderline strong-weak institutional environments; and restaurants in the weak-weak technical/ institutional environments.

They comment that any organisation which falls into this latter quadrant will find it a barrier to growth, because they lack stability and size. "It appears that strong and stable organisational forms can arise in either technical or institutional environments, but that one of these two sets of constraints and supports must be present". One could assume many small and medium size enterprises would be located in this quadrant. They develop a hypothesis that -

"Organisations functioning in sectors that are not highly developed either technically or institutionally are expected to be relatively small in size and weak in terms of their capacity for survival".

To summarise: the idea, like population ecology, is to highlight organisations which have similar outputs and which include key linkages, but in addition account for local and non-local links, vertical and horizontal connections, cultural and political emphases and finally any technical transactions.

Critique of the Institutional Approach

There are a number of replies to this approach for it seems to emphasise several factors.

First: in its eagerness to inform about the need to gain legitimacy, and to be influenced by the values and beliefs of other parts of the environment, it ignores the fact that organisations, both small and large, can and do develop and grow their own rituals, ceremonies and cultures, Deal & Kennedy (1982) based upon the shared vision of either the leader or the team at the top, Peters (1988), Kotter (1988), Waterman (1987), Tichy & Davanna (1986), Pascale (1991). Moreover, it ignores the possibility that individuals can use institutionalised rules for their own ends.

"It ignores the insight that organisations can manipulate the symbols they present to the external environment, that they must also be adept at producing and controlling symbolic elements as well", Powell (1991).

The small organisation, or the self-employed business, may well be dominated by the institutional environment, but by the same token, they can add to it, in their niche markets; and begin even to change it.

It undervalues the ingenuity, flair and drive of the individual. The assumption is that large organisations are the environment, and dominate indefinitely without, in some circumstances, needing to perform efficiently. Organisations are not passive and environments can be benign as well as difficult and turbulent.

Second: perhaps because researchers focused their attention essentially on non-profit making organisations it caused them to overemphasise the difference between

economic and social sectors; they are not in opposition; every sector comprises both, Scott (1991). "The literature suggests a static constrained and overemphasised view of organisations", Powell (1991), with organisations unconcerned with performance because they focus on being seen as legitimate.

Third: the loose coupling between an organisation's structure and ways of working; and its enabling mechanisms and results, have given rise to an overemphatic view that organisations are primarily concerned with seeking legitimacy through rule-dependency and symbols.

Fourth: it ignores the numerous types of internal responses an organisation can make to its environment; for instance, it can restructure, build highly motivated teams, or build visions that can drive organisations forward.

Fifth: and building upon the fourth factor, it has no comment to make on the notion that organisations can reconfigure their internal systems for the sake solely of efficiency cost and higher performance and not for legitimacy: a current example would be the outsourcing of I.T. functions in certain banks, Huber (1993).

Sixth: it ignores the perspective that strategies which are developed in the early days of the organisation's life influence the mechanisms, norms and values for long periods; in some cases, it should be noted, unprofitably - this revisits the idea of "structural inertia".

Seventh: it does not take account of the interplay between the approaches mentioned earlier. Obviously this critique could be applied to the previous approaches mentioned: "increasingly, current organisation theory is aware of the interpenetration of power, institutions and efficiency", Clegg (1990).

(4) Postmodernism (applied as a form of critique of the previous theories)

Finally, a postmodernist critique can be applied to this, and the previous topics. "Clearly, if a theory is subsequently disproved by a later theory, it cannot have been

true in the first place and thus was not a scientific fact. By implication, the standing of any current theory which makes such claims is also questionable”, Jackson & Carter (1991). “The objective of the postmodernist is not to totalize, because that is a futile endeavour”, Parker (1992). He goes on to say that the bulk of the work on postmodernism to date propounds “diversity and difference”. Jackson & Carter (1991) define postmodernism as “..... the abandonment of faith in the symbiosis of science and truth”. Harvey (1989) defines it as “... a rejection of ‘meta-narratives’ (large theoretical interpretations of universal application)”.

Law (1994) would ask for more ‘sociological modesty’ arguing that “..... theories which claim exclusive rights to social analysis are both wrong and harmful”. There is no order because we are never finished, its always in process. We should search for clues to patterns in the metaphors, language and stories which are to be found in the discourses taking place in organisations. In fact these discourses are ordering patterns of reality not orders and provide meaning and resonance for the person.

An important focus of this argument is to become comfortable with reflectiveness - querying self and the research process itself, i.e. our assumptions and role. Put another way we have to learn to deal with the paradox that the same situation can mean many things at the same time, Morgan (1993).

Watson’s (1994) work on management exemplifies this argument that managers not only manage others but also themselves - its a concept always in process, always shaping ourselves.

Jackson & Carter (1991) suggest that:

“the rise of postmodernism has presented a way out of the impasse, (*of modernism, this researcher’s insertion*), with its characterisation of the possibility of transcendent, objective rationality as an illusion. Rather, rationality is seen as a product, not of the science, but of the scientist, and therefore inherently subjective and beyond any claim to objective truthfulness. Knowledge claims cannot thus be judged in terms of their impartiality but only in terms of their consequences”.

Although Reed (1993), besides other voices, argues against the postmodernist view by suggesting it has overemphasised the totalising aspect of modernism, for instance, Thompson (1993) offers views that it is a meta-narrative and also undertheorised. Parker (1993) is unable to agree wholeheartedly with either postmodernism or modernism and he asks us to treat postmodernism with caution and not reject modernism altogether.

Part 3 - Conclusion

How the Barriers to Growth for Small and Medium Size Enterprises will be addressed

As has been shown in the previous section, the literature on organisational analysis is preoccupied with environmental constraints and influences.

The review began with a discussion of open systems to position the importance of the environment in organisational life. A six point critique was presented before addressing four other organisational viewpoints: namely, Population Ecology; Resource Dependency and Inter-organisational Networks; Institutional Analysis; and the Postmodern paradigm. These were all critiqued.

The first three demonstrated a variety of ways to understand the environment. They were helpful in pointing the author in the direction of Scanning and Decoding as important aspects of an owner-manager's business skills. Further, they demonstrated the requirement on owner-managers to learn to cope with the environment. Whilst the fourth, Postmodernism, with its reflectiveness aspect, was important for indicating the need for Openness and Testing. Factors which were developed within the research.

This thesis will research the notion that small and medium size enterprises are the cause of their own lack of growth or otherwise, because they do (not) know how to learn; that is: in order to grow successfully small and medium size enterprises need to learn how to learn and therefore learn what they do not know about understanding the environment.

The organisational analysis approaches drawn out from the literature ignore this side of the issue and a different approach will be proposed, called the Learning-Decoding Approach.

It is the contention that small and medium size enterprises do not want to control their environment - as the organisational analysis literature generally argues - but would like simply to understand it, flow with it, and "make a friend of it" by accurately and correctly decoding its signals.

It could be imagined that small enterprises lie along a continuum from low level of awareness for learning to high level of awareness for learning. By understanding their inclination to learn and how they approach it, if at all, it should be possible to position them on a continuum and make some predictions as to their future growth potential.

This suggests collecting and analysing data on issues like: how they scan their environments; how they learn from errors and successes in past and current experience; how they learn to decode environmental signals from the various parts of the environment; for instance, how they interpret feedback from customers; how they learn to make contact with other parts of the environment; and how they learn to bypass structural inertia, which can occur early in the small size enterprises' life cycle due to energy dissipation. And finally, what do they do with the results of these processes.

To summarise, the material relevant to this thesis has been critically reviewed and it was shown that the hypothesis, referred to as the Learning-Decoding Approach, was derived from the large organisational design literature. It is now advocated that an operational review of the various parts of the hypothesis, namely Scanning, Decoding, Testing and Strategy Planning, be undertaken. These are set out fully in the next chapter in the section titled the Aims of the Research. In chapters 5 to 8, the operational review takes place where the research data is analysed by combined sector, sectors, size and gender, and similarities and differences are identified.

CHAPTER 4: RESEARCH METHODOLOGY

Introduction

This chapter sets out the aim of the research and how it was undertaken. It is presented in six sub-sections:

- (1) Aim of the Research
- (2) Criteria for Research
- (3) Methodology used in the Research
- (4) Data collection Methods Reviewed
- (5) The Pilot Study
- (6) Data Analysis of the Main Study

(1) Aim of the Research

After a review of the literature on the barriers to growth in small firms and an explanation of the organisational literature from Open Systems to Postmodernism the hypothesis was produced which has been titled the Learning-Decoding Approach. This research addresses three issues which comprise the Learning-Decoding Approach; that small business owners will learn how to learn to overcome barriers to growth if:

- (1) they scan their environment for signals and cues;
- (2) they spend time and energy Decoding these signals and cues;
- (3) they Test the outcome of their Decoding process against the Mental Models and Assumptions they hold.

A fourth factor (which is not considered part of the Learning-Decoding Approach) suggests that the results of these three processes will be employed by the small business owner to design plans that emerge over time rather than be used to develop any strategic plans over one to several years.

The hypothesis fits the definition laid down by Nachmias & Nachmias (1982) that it should be "*clear, value-free, specific, and amenable to empirical testing*".

Moreover, starting with a hypothesis allows data to be collected quickly and efficiently as the interviewer and respondent are clear and focused about what is being

investigated. The downside is that the results may be insubstantial. Easterby-Smith, et al (1991).

Thus the aim of the research was to test the hypothesis above and explore the following research questions in order to gain an understanding of the meaning and importance owner-managers attach to Scanning, Decoding, Testing and Strategy Planning:

- Are Scanning, Decoding, Testing and Strategy Planning considered valued activities by owner-managers?
- Are differences evident in Scanning, Decoding, Testing and Strategy Planning between sectors, firm sizes and genders?
- Does the level of effectiveness in applying Scanning, Decoding, Testing and Strategy Planning have implications for growth?
- Does the owner-manager seek out signals in specific areas and what are the implications for managing growth?
- What problems does Scanning identify?
- Do the owner-managers' perceptions of their level of openness and energy for changing their views influence the process of Decoding and Testing?
- Do the owner-managers' perceptions of Strategy Planning influence its use? For instance, are plans immutable, used only as guides, emerge over time or non-existent?

This led to the development of the criteria for the research and the methodology which would be applied. The main criteria was that two Sectors would be reviewed in order to permit a worthwhile and productive comparison to be made; and that fifty firms separated into three sizes would be interviewed.

An explanation for the reason these criteria were chosen is discussed in the next section.

(2) Criteria for Research

The research involved two sectors - Management Consulting and Marketing Consulting. Fifty firms, twenty-five firms in each sector, were selected which were separated into the following groups:

size 10-25 employees	-	5 firms in each sector
size 2-9 employees	-	10 firms in each sector
size micro (self-employed)	-	10 firms in each sector

Professional consulting was chosen because it is a fast growing service and also because the author has managed his own Management firm for over 15 years.

Marketing was chosen as a distinct sector in order to provide a comparison with Management. The product bases are different and the former is more externally focused whilst the latter is predominantly internally focused.

Definitions for the Management and Marketing Consulting Sectors were developed and firms were selected which met the criteria. The definitions were as follows:

The Management Consulting Sector

The firm delivers expertise through services in areas such as Organisation Development, Environmental Consultancy, Training, Human Resource Development and Manufacturing Systems.

The Marketing Consulting Sector

The firm delivers expertise through services in one or more of the areas of Market Research, Direct Selling, Sales Promotion Campaigns and Training, Conferencing and Communications, and Advertising.

Fifty firms were selected as it was felt that this number of firms would provide a rich vein of data and allow a worthwhile comparison to be made. As Hoinville et al (1978) point out, 50 in-depth interviews are about the norm due to the problems that arise with the analysis and comprehension of the qualitative data. Of the fifty firms selected the gender mix was 75% male, 25% female.

The fifty firms operated in the South-East and Oxford areas. These locations were selected solely on a cost and time travel basis. The author felt a firm could be visited within a day.

Interestingly, only one owner-manager forgot to make himself available. The author travelled 80 plus miles to interview him at his home but to no avail. However, the fault was the author's as he neglected to telephone in advance to ensure he was still available. Later that week it was discovered that the prospective interviewee had been recently booked to run a Time Management Workshop on the day of the interview!

Finally, three different firm sizes were chosen to allow further comparisons to be made at an inter and intra sector level.

(3) Methodology used in the Research

(3.1) Qualitative versus Quantitative

There is a long-standing debate surrounding the two traditional modes of data, viz: quantitative and qualitative. The quantitative methodology mimics the methods applied in the natural sciences:

“Quantitative research is, then, a genre which uses a special language which appears to exhibit some similarity to the ways in which scientists talk about how they investigate the natural order - variable control, measurement, experiment”. Bryman (1988).

On the other hand qualitative approaches aim to reflect the meanings people apply to their actions; how people make sense of their world from the perspective of those people. Bryman (1988).

This thesis combines both the quantitative and qualitative approaches. It was felt that this mix of the two would legitimate the findings, Bryman (1988). As Das (1983) rightly cautions, qualitative research has a number of problems inherent within it. The method is subjective, as is the data collected and collated, and the outcome is only as good as the questions developed. He argues that one realistic way to overcome this dilemma is to combine both methodologies in the study - termed triangulation. Since

they complement each other in many ways and help to reassure the researcher about the conclusions being drawn up.

Further, in keeping with Silverman's (1985) view neither one is better than the other, the choice is driven by the particular issue under research; and the difference between the two epistemological frameworks or paradigms has been overstated, Bryman (1988); and the approaches, anyway, are not mutually exclusive, Das (1983).

Using this combination of approaches provides opportunities to confirm conclusions drawn from the information in the research interviews which the sole use of the qualitative style could not be completely relied upon to give the full picture, Silverman (1985), Bryman (1988). So as it was considered that a combination of the two was more relevant to the research there was no reason for them not to be combined. Bryman (1988), Frey (1989).

"Increasingly, authors and researchers who work in organisations and with managers argue that one should attempt to mix methods to some extent, because it provides more perspectives on the phenomena being investigated". Easterby-Smith et al (1991).

In fact, they go so far as to advise researchers to make use of several methods and cross over the paradigm fences whenever possible, albeit carefully.

However, it does pose the dilemma of what to do when the two forms of data give contrasting results. For instance, this research used a structured questionnaire in conjunction with a semi-structured interview and a contrast was evidenced with one of the factors under research - Decoding and Testing. Most owner-managers responded positively to the structured questions in table 20 that Decoding is a key skill; and that Testing is necessary. However, those who rated themselves 5 and below on their effectiveness scales for both activities in the qualitative interview gave reasons which would belie their earlier responses.

Easterby-Smith et al (1991), citing Legge (1984), suggest a structured questionnaire can be illusory of the real effect of the issues. They also suggest that one of the weaknesses of the quantitative paradigm is that it is not effective in appreciating the meanings respondents attach to answers. Easterby-Smith et al (1991).

Nevertheless, the thesis lays more emphasis upon the qualitative style in order to have a flexible tool which afforded “the widest possible exploration of views and behaviour patterns”. Hoinville et al (1978). The use of the quantitative style acts in a supportive or confirmatory capacity; as an enhancement not a distraction or detractor of the arguments being presented, Allan (1991).

“Most researchers rely primarily on a method associated with one of the two research traditions but buttress their findings with a method associated with the other tradition”. Bryman (1988).

(3.2) The Interview Process and Questionnaire Design

Moser & Kalton (1985) depict the interview as a conversation whereby one person desires to draw out information from another and has the freedom to explore the core issues in his/her own manner; what Ackroyd & Hughes (1981), Bell (1987), refer to as the guided or focused interview.

Nachmias & Nachmias (1982) would agree with this but add that it has unusual obstacles concerning the roles of each participant to the face-to-face interaction. Primarily because each could behave in ways uncharacteristic of their usual behaviour.

As Easterby-Smith et al (1991) rightly suggest the dynamic between the interviewer and respondent is an important area that the interviewer should understand. As this can define how the questions are received and answered. They argue that trust between the two parties is a key function and that it becomes more difficult to attain in the one-off type of interview.

This did not seem to be a problem in the fieldwork as the owner-managers frequently were curious about the topics of Scanning, Decoding, Testing and Strategy Planning as laid out in the author's initial telephone call and letter to them.

A number of people expressed their enjoyment at the interview. They commented that they had never looked at their business from the context of the questions they were being asked to respond to. Many remarked that it had offered them the chance to step back and reflect upon the manner in which they managed the firm. Jones (1991) found a similar process occurring and that it "enhances one's faith in the validity of the answers".

This suggests they perceived that there would be some added value from undergoing the interview process. Interestingly, one of the author's reflections was that he felt he was viewed as having the appropriate status to understand the owner-managers' views. Both these factors - status and gain from the social interaction - are considered as relevant ways in which trust is developed. Easterby-Smith et al (1991).

The aim of the survey was to provide an overall view of the two sectors, rather than a definite statement on a situation, Das (1983), by using semi-structured interviews to elicit the small business owners' constructs which form the basis of their beliefs. De Vaus (1991), Easterby-Smith et al (1991).

The personal face-to-face interview was opted for. The perceived advantages were flexibility, contact, and the facility to collect supplementary data. Naturally a major disadvantage is interviewer bias. This was partially redressed by using, in tandem with the interview, a structured questionnaire "in which the questions, their wording and their sequence are fixed and are identical for every respondent", Nachmias & Nachmias (1982). So that if, or when, variations in responses occurred it was possible to attribute them to respondents not the interview. This process was considered by the author and many of those interviewed to be both a productive use of the time; and a useful way to compare their verbal utterances, Glastonbury & MacKean (1991), about the three Learning-Decoding Approach topics and the Strategy Planning issue.

Further it was a help to reduce to the minimum interview bias, Oppenheim (1992), which may have crept into the main interview. This self-administered questionnaire aimed to provide data which would reinforce, or otherwise, the information gathered from the main interview process. It was arranged as a Likert type scale and respondents ticked headings of Agree, Neutral, Disagree (see Appendix 1). The results were arranged as tables and a Chi-square test was applied to establish whether significant differences were present between Sectors, Sizes or Genders.

The questionnaire was in nine parts and was designed to elicit data about the topics - Scanning the environment; Decoding signals and cues; Testing this outcome against Mental Models and Assumptions; and finally establishing views on Strategic Planning, (see Appendix 1).

The interview was constructed of open questions in order to allow the respondent to explore attitudes and views in a comprehensive manner; and to reduce the possibility of bias. Further, it allowed the author to probe and seek elaboration whenever necessary which Easterby-Smith et al (1991) see as an effective “..... intervention technique to improve, or sharpen up, the interviewee’s response”.

The sequence of the interview was the same for each interviewee. It followed what the author considered to be the natural process of how the factors under research would be applied in reality, i.e. owner-managers scan before decoding and so on. It was considered this would ease any confusion about the subject matter.

Within each of the sections a question was included which asked respondents to self-rate themselves from 1 to 10 along a bi-polar scale. For example, they were asked how effective they were at Scanning, on a scale of 1 (poor) to 10 (excellent). The author favoured the scale 1-10 as it was broad enough to allow finer discrimination. However, Hoinville et al (1978) suggest that “no uniform view has emerged on the best number of points to include in scales”. And since it is at best a mechanism for positioning people relatively one is no better than another.

Nevertheless, this form of measurement lent itself admirably to parametric analysis by 't' testing. Median scores were also included as a further refinement. These self-ratings have been treated with caution by the author as he is cognisant that they can give "a spurious air of accuracy", Oppenheim (1992).

Benney & Hughes (1984) suggest the interview is characterised by two features - equality and comparability - which lend it "it's uniqueness". What they mean is that for the duration of the interview, at least, the interviewer and respondent have entered into an implicit form of contract, where one side gives of their views without fear of rejection or contradiction by the other. And during the interviews some level of standardisation in the way it is managed is sought.

These two features were diligently worked at. The first was felt to be easily attained as the author was part of the sector(s) being investigated and both sides were used to giving and receiving data as part of their everyday business world. The second feature was harder to attain due to the length of the interviews (2-4 hours) but was simplified by the use of a tape recorder, which made analysis easier.

Easterby-Smith et al (1991) suggest that to reduce any 'threat' posed by the use of a tape recorder the responsibility for its control can be offered to the interviewee. This was carried out by the author.

Interestingly, the small number who took it over did so not because they felt threatened but because they felt anxious about wasting the tape whilst they gathered their thoughts about a particular question.

Building immediate rapport was another issue the author reflected upon. As the need was to be as productive as possible in the time allowed. Jones (1991) notes that image presentation by the interviewer helps build rapport. This was found to be the case with this author. First, for his meetings with all the fifty firms, whether they were in up-market offices or private homes, he wore a business suit. Invariably he found the respondent was dressed in a similar mode.

Second, as all firms were cold called, telephone manner was a key factor in putting the prospective interviewees at ease and in reassuring them about the researcher and the subject matter: “ ‘voice’ contact is a first opportunity to communicate enthusiasm for the project”, Easterby-Smith et al (1991). Surprisingly, very few were off-hand or dismissive of the researcher. When diary dates were set up a cover letter was written or faxed on the author’s company stationery setting out in more detail the research, and giving Professor Adrian Woods as a reference (he told the author only one prospective firm telephoned him to check out the validity of the author and his work). This introductory letter was well-received, especially by the female respondents who invariably felt reassured; especially since several were allowing the author into their homes. Undoubtedly, this letter helped build rapport and allowed them to reflect about the subject matter prior to being interviewed. After the interview the author always asked for (and was always given) permission to contact them again should it be necessary. A further letter was sent to thank them for their courtesy, time and energy spent.

Moser & Kalton (1985) report evidence that there are three core features: accessibility of the data to the interviewee; a level of appreciation and understanding the interviewee holds about his/her role; and finally, the motivation to cooperate. All three were met within the survey. Interestingly, however, it was found that understanding of what was needed of the respondent was an issue that needed to be nurtured. At times during the interview it became part of the interviewer’s role, quite rightly, to help the respondent understand the role (s)he was playing. This was accomplished firstly at the introduction to the session and thereafter by probing questions to elicit further responses when it was felt an answer was incomplete, Moser & Kalton (1985).

(3.3) Finding Interviewees

Potential interviewees were identified by first telephoning the Institute of Directors, Association of Management Education & Development, and the Institute of Marketing; and by trawling through their indexes of consulting firms. A random sampling method was employed whereby every 10th firm on every 3rd page of an

index was selected - Frey (1989). This became a time-consuming activity as the size of the firm was unknown at the time of selection and could only be established during the initial telephone call. In fact, it is suggested that probability sampling is too costly and “purposive selection rather than random sampling” should be used. Hoinville et al (1978).

In order to keep to a disciplined timetable of one to two interviews per week the researcher would allocate a half day per week to cold call firms with a view to getting a diary date two weeks in advance. On most occasions this proved successful. Where it did not, the researcher was either left with a time gap, or more than two interviews in a week. As transcribing the tapes took another 4 to 8 hours per interview the process was occasionally intense.

(4) Data Collection Methods Reviewed

According to Nachmias & Nachmias (1982) survey research embraces mail questionnaires, telephone surveys and personal interviews. For the purposes of this research it was considered necessary to have a level of rapport that comes from face-to-face interviews, because to elicit the data felt necessary for a worthwhile study would be more readily connectable and retrievable through a personal semi-structured interview than by the more impersonal means of postal questionnaires or telephone surveys. In fact, it would have been unlikely the data could be delivered in those formats. Further, it could safely be expected that the owner-managers were extremely familiar with the interview tool; using it in their own daily work with clients.

As the interview questions required respondents to reflect deeply about topics which were not at the forefront of their minds in the management of their daily business routines, the telephone interview was not considered a fitting way to approach these subjects. As with mail questionnaires this requires a highly structured questionnaire and would not provide the nuances and reflections of the face-to-face interview.

Frey (1989) notes that criticism has been levelled at telephone data collection because “complex questions or those requiring an in-depth response cannot be asked”. Its

effect could be a lower quality of result. This is not the case with face-to-face interviewing. He says: “the advantage of the use of complex questions goes to the face-to-face interview because of the presence of an interviewer who can verbally clarify any misunderstanding", Frey (1989).

Participant observation was rejected as unworkable. The focus of the research was on the individual, and in the context he/she works, it would have meant (especially with micro firms) observing them interact with their clients. The logistics of such an exercise, never mind its unacceptability to both consulting firm and client, was not possible. Further it is “the least controlled method of observation”, Nachmias & Nachmias (1982). However, its main benefit is that “it avoids the discrepancy between real and verbal behaviour. Interviews especially suffer this disadvantage”. Friedrichs et al (1975).

The interview process could have benefited from the use of diaries. Easterby-Smith et al (1991) suggest diaries are useful for gathering information from the interviewee’s perspective; it affords the researcher the opportunity for comparison and it collects in other data that may have been omitted by lack of questioning.

The research into networking was one such area that could have gained from the use of diaries. It was discovered that both sectors are active in this area but the Management Sector have an added use for it which was not evidenced in the Marketing Sector, simply because it was not mentioned in their interviews. A diary kept for one day alone may have provided the author with data that did not come readily to the interviewee’s mind.

(5) The Pilot Study

The aim of the Pilot Study was to determine if the hypothesis was worth pursuing and to test out the type of questions and approach which would be undertaken in the main research. As Hoinville et al (1978) remark pilot work is a useful means for refining and sequencing interview and questions.

The results of the interview data from the five firms used in the study were the basis upon which judgements were made as to how effectively the firms used the Learning-Decoding Approach mechanisms.

(5.1) Methodology

The study comprised face-to-face interviews with a senior member of each of five organisations. Each interview lasted between 1-2 hours, and took place at the interviewee's office. The interview schedule comprised 20 open-ended questions supported by supplementary questions (see Appendix 2). The interviews were analysed by content and coded, Ackroyd & Hughes (1981); where it was felt respondents had made similar comments and statements, these were grouped to formulate an opinion cluster: for example, 60% of the respondents felt their niche or sector was saturated as the recession had caused people to try it on their own, so causing problems of oversupply, which was prompting customers to demand discounts and in turn was reducing supplier margins.

Three different sectors were selected - Engineering, Financial Services, and Marketing - to establish the relevance of the hypothesis and to assist in the construction of the final questionnaire by testing how easy it was for them to respond and to give the researcher indications where to probe. Four firms were in the Home Counties, one was in Liverpool. Interviews took place during the day in the interviewee's offices. All interviewees were male.

The five organisations were a Merseyside Engineering company (15 employees), an Advertising & Marketing company (12 employees), a Building Society (24 employees), a Marketing company (6 employees), and a City Venture Capital company (13 employees), hereafter referred to as Engco, Amco, Busoc, Markco and Ventco.

This pilot, it could be argued, was a type of case study approach. For it embraced multiple cases of snapshot pictures so that comparison and replication could be made and diversity was available, Rose (1991) and in which the cases were used in an

exploratory way; as “..... a pilot study that can be used as a basis for formulating more precise questions or testable hypothesis”. Gummesson (1991).

The Pilot Study identified several discrepancies. It indicated that a mix of both qualitative and quantitative approaches was the most appropriate way forward; that a self-rating scale would be beneficial for each factor of Scanning, Decoding, Testing and Strategy Planning; that the questionnaire should be arranged by discrete factors (Scanning, Decoding, Testing and Strategy Planning) so that analysis would be more efficiently carried out. Finally, it indicated that interviewing was the most appropriate process to be used as participant observation would be unworkable in their offices and homes, and that interview by telephone could not cope with the complexity of the subject. Moreover, professionals have been found to favour face-to-face interviews over either mail or telephone ones. Frey (1989).

Diaries, although rejected as a method that the owner-managers would not have carried through due to their time, resource problems and anxiety over confidentiality would have been a useful third method for checking on the interview data. Easterby-Smith et al (1991).

(5.2) Analysis of the Pilot Study

In this instance, the Learning-Decoding Approach was segmented into four sub-parts which were termed Learning Spectrums. Each sub-part consisted of two poles, with the scale running from one pole to the other.

The four sub-parts were:

- (1) Consciously scans environment: to environment not scanned.
- (2) Expend time and energy decoding signals from environment: to does not decode.
- (3) Consciously tests organisational assumptions and mental constructs: to solves problems using current mental models.
- (4) Uses an emergent strategy: to has no strategy at all.

The belief was that any company positioned near to the left side of the spectrum engages in high order learning. Which was defined as metamising, Pascale (1991); doing something different; going beyond the old predictable experience; a higher order capability; testing preconceptions and assumptions and thus previous experiences and learning. Conversely, any company positioned near the right side of the spectrum engages in low order learning, or in the extreme no learning at all. These companies carry on as in the past with signals from the environment ignored.

A company on the right pole could be doing well as its environment is sufficiently stable for it to continue to operate as it always has. It could be improving by learning how to do its existing things better; but (and this is the key point) it would not be capable of readily changing because it is unlikely to understand and recognise when its environment is changing and requiring it to change. Eventually the company will face a crisis as its environment has changed so much that the old ways of working are no longer viable. It will not be able to adjust to the new environment because it (or rather the owner/manager) lacks the skills to understand and interact with the environment.

The information collected from the interviews allowed the author to roughly position the five companies on the Learning Spectrum. Each sub-part of the spectrum is shown below with every company located on it.

Consciously scans environment to environment not scanned

There was one organisation (Engco) which did not scan the environment, he used past experience to resolve issues in the 'here and now'. Consequently the firm is positioned towards the right hand side of the Spectrum.

Engco particularly was consumed by day-to-day issues. He responded to a question on environment scanning by saying that he didn't do it; "we are sailing blind and we're so busy on day-to-day things we could be sailing on to the rocks". This seems particularly apposite. In addition, he was without a mechanism for receiving external

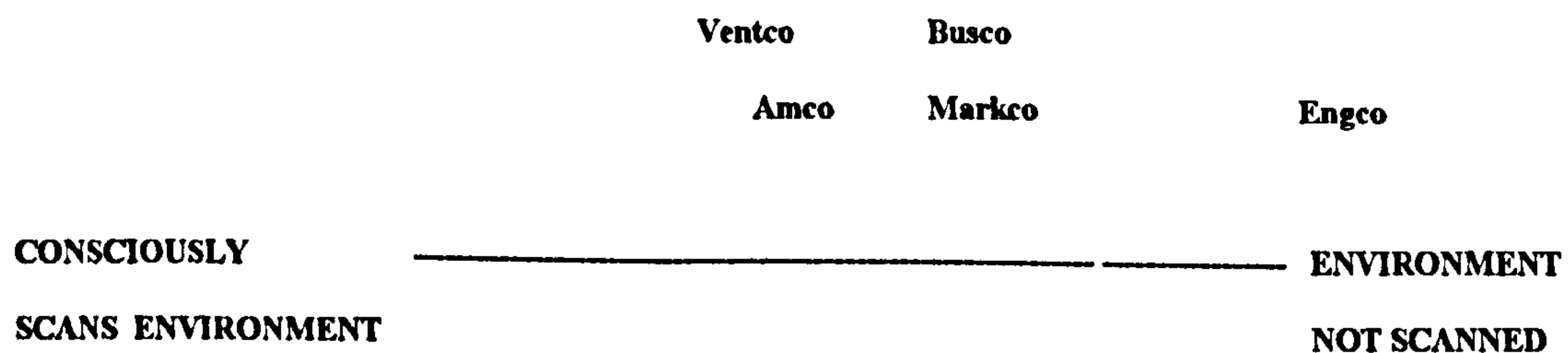
customer feedback. In fact Engco heard about lost customers through other company representatives visiting his premises.

Busoc responded differently saying, "I'm very focused on short term business." He approached this factor by reading the newspapers and by relying on his staff: "We take a spread of newspapers - all the staff know what we are interested in." He was also connected to his management board (a solicitor and a business person) for wider information. This led to an extension of the premises. Feedback from the customer base was not sought.

The remaining three also scanned, albeit on an occasional and haphazard fashion; and did appear to think ahead. For example one because of its scanning of its environment was considering merging, (Markco), another had invested £20-30K in new technology, and had specifically structured the organisation so that one partner's role was to focus on business development (Amco), and the third had modified its business planning down from 5 years to 3 years (what the interviewee termed 'the limiting paradigm'). (Ventco).

These three companies sought or received customer feedback concerning the quality of their work after the event. None had any system in place for gauging the level of customer satisfaction on an on-going basis. A typical response to the question on feedback was: "they 'phone us after a job, we don't ask them for feedback."

Amco and Ventco were then positioned towards the centre and Markco and Busoc right of centre on the Spectrum. Engco was placed on the right pole.



Much decoding carried out to does not decode

Clearly Engco, as he did not scan the environment, did not expend much time nor energy on trying to understand what the signals from the environment meant. He was consumed very much with daily problem solving. Engco remarked that, "I don't do it. I don't seem to get any signals." Engco was positioned at the right hand side of the Spectrum.

Busoc engaged somewhat in decoding and was positioned between the centre and the right of the Spectrum. He said, "We just have to keep going. We do what we think is right" .

Amco showed a strong link to decoding by their investment in high technology, commenting that, "we knew we had to invest £20K - £30K in design computers two years ago and we brought in trained people to run them;" and designating one partner as the Business Development focus and merging with a Communications organisation. Ventco also showed strong links, for example, the Ventco respondent spoke about the need to update his personal constructs. Ventco was positioned at the centre of the Spectrum.

Markco showed a link when the respondent talked about learning as "the key to the future" and experience not being the whole answer to it. Markco also perceived itself as an innovator having reaped the benefits of earlier experimentation; and embarking on a further phase which could alter the focus of the business. This suggests that Markco should also be positioned close to the centre of the Spectrum.

However, as the five companies did not spend significant amounts of time researching what the signals meant, none could be positioned at the left-hand side of the spectrum.

Amco

Engco

Ventco

Busoc

Markco

MUCH DECODING

DOES NOT

CARRIED OUT

DECODE

**Consciously tests assumptions and mental models
to solves problems using current mental models**

Three organisations (Ventco, Amco, and Markco) carried out some form of organisational assumption testing and mental construct updating. Whereas Engco and Busoc did not appear to engage in this process.

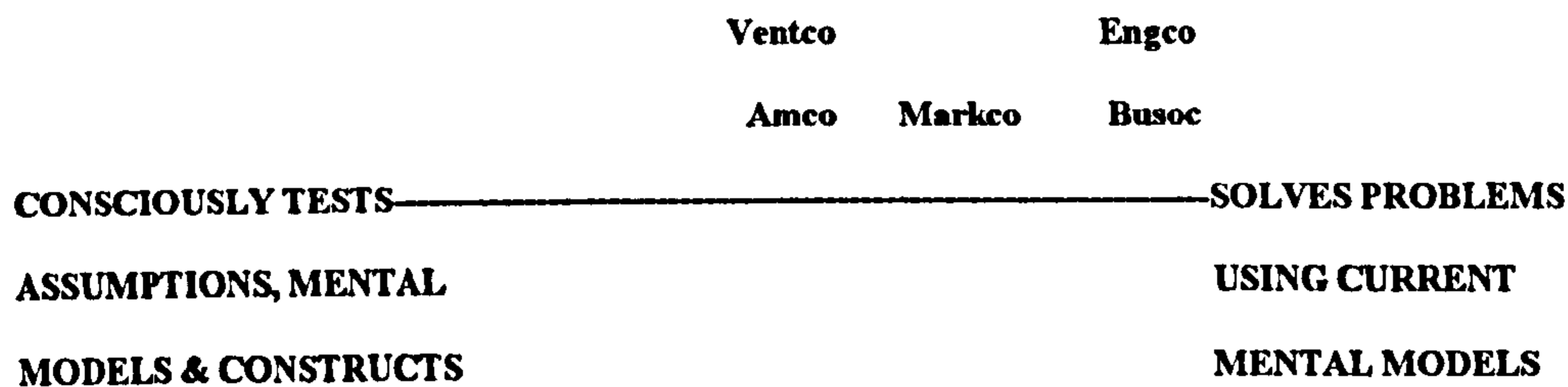
For example Ventco remarked that: "I've seen lots of examples of success and failure so I extract patterns. It's a set of constructs - like a neural network continuously being updated." Later on in the interview he commented that: "You get a sniff it's going to be alright, but not in accountant's time. So you need to put more money in - so I have a set of constructs." Finally, whenever he looks at a new, potential firm to invest in, he updates his constructs because he's learning a new experience, as they all behave differently.

Whilst Amco said, "I get feedback from all disciplines - I believe in talking to others in business." So he uses his Golf Club and local businessmen's charity society to help him formulate his views, in order that he can "make calculated moves to direct the business or advise the partners." However he rejects the use of sub-contractors - networking - as it reduces customer contact.

Ventco and Amco were positioned centrally on the Spectrum.

Busoc saw himself as old-fashioned and conservative; whereas Engco believed he learned through experience by "doing something and finding it worked." They were both positioned at the right hand side of the Spectrum.

Finally, Markco had a drive to make himself into an expert or at least very knowledgeable on a topic, he commented that "I dissect the topic until I understand it, and I ask myself questions during the process of analysis." Markco was positioned between the centre and the right hand side of the Spectrum.



Consciously uses the process of emergent strategy to does not use a strategy

Engco had no strategy, everything was ad hoc; "We don't do any planning, we operate on a day-to-day basis." It was positioned at the right hand side of the Spectrum.

Busoc, Ventco and Amco showed a stronger link with emergent planning. Busoc because of its investment in office and car park extensions; and because it steered clear of the arrears issues which hit many Societies: first time buyers are the exception not the rule, a protocol seriously upheld in this organisation. Ventco because its profitable investment involves planning; and Amco because of its recent history of investment in technology and its merger with a Communications company. All were positioned toward the left of the Spectrum.

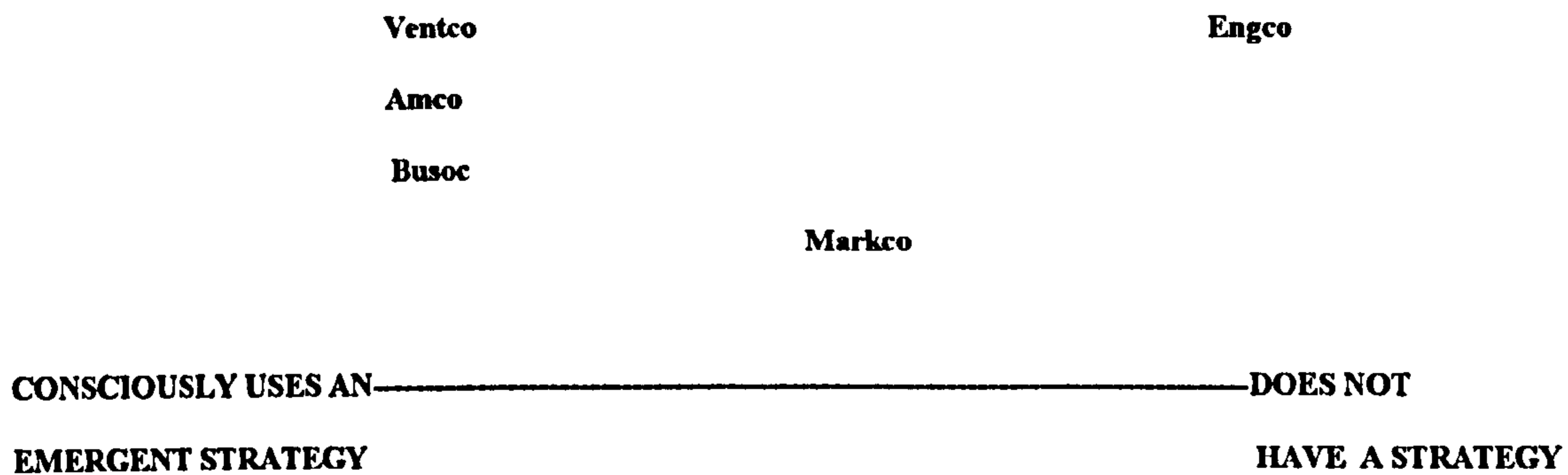
Interestingly, the current environment is forcing a change of view upon some of them: Engco and Markco now believe current business is based upon luck or trial and error rather than on some planned or emerging strategy.

"Business is just suck it and see and just hope what you do will work."

"It's trial and error."

"Luck seems to play a big part and as such I've come to trust in luck this could be called opportunity in a different guise."

This suggests Markco will gravitate towards the right hand side of the Spectrum in the foreseeable future, and join Engco. As a consequence it has been positioned at the centre of the Spectrum.



(5.3) Some Findings from the Pilot Study

During the interviews undertaken with the five companies several valuable avenues for further study were found.

First, the learning style of the organisation may be determined by the predisposition of the owner/manager rather than the environment, that is, there may be a link between the cognitive style of the owner/manager and the learning style of the business, with the environment being relatively less important. What this means is if the company operates in an environment that is changing rapidly but the cognitive style of the owner/manager is one of stability the business will eventually fail as it cannot adapt to its environment. Alternatively, if the owner/manager does lots of experimenting and questioning leading to lots of changes, when the environment is relatively stable, this might also lead to failure. *(This point is not developed further in the research.)*

Second, it should be possible to test the Learning-Decoding Approach across sectors to see if or how the approach needs modifying for different sectors.

Next it would be interesting to see if a gender effect exists as all the respondents were male.

Fourth it should be possible to test whether an emergent planning strategy, rather than a planned one, is more conducive to ongoing learning for the small business owner/manager. This would feed into the debate about what management skills small business owners need.

Lastly the respondents felt that networking with other small business owners was not considered a worthwhile mechanism for learning about their environment. This is a current area of much debate, Dickson, Smith & Woods (1994), and warrants further study within the proposed Learning-Decoding Approach.

By interviewing small business owners, it was found possible to approximately position their companies on the Learning Spectrum. The next part of the main research was to test how successful the Learning-Decoding Approach would be with a larger sample of companies.

(6) Data Analysis of the Main Study

Work on this stage generally followed Easterby-Smith et al (1991) step-by-step approach for analysing qualitative data in transcript and tape-recorder form.

The first step **Familiarisation** with the data was a long task as it involved transcribing the data and reading and re-reading it in conjunction with listening to the tapes. In fact, this step occurred throughout the process. The author continually moved along the process only to be drawn back again into the data.

The data was **Catalogued** to present it in a more refined form. This entailed coding the structured questionnaire in order to use the Statistical Package for Social Scientists (SPSS). Chi-square significance levels were established. Cataloguing of the qualitative interviews permitted quotations to be identified, which were eventually put into the text.

Histograms were drawn up of owner-managers' self-assessment grades for effectiveness at using the four factors of Scanning, Decoding, Testing and Strategy Planning. This allowed median scores and t tests to be applied.

Towards the end of the Cataloguing process the **Reflection** and **Conceptualisation** steps occurred. The former began to show that the data was partially supporting and reinforcing the hypothesis; whilst the latter began to highlight similarities and differences amongst the Sectors, Firm Sizes and Genders. In addition, it identified five major themes running through the research. First, that Scanning is predominantly focused upon the client base; second, Decoding and Testing Assumptions and Mental Models are learned skills; third, emergent planning is the favoured planning process; fourth, managing growth and getting new business are primary issues confronting owner-managers; and fifth, Scanning, Decoding, Testing and Strategy Planning are informal activities and formality is eschewed.

The next step was to **Link** the data into some tentative theory which has been termed the Learning-Decoding Approach.

The final stage was **Re-evaluation**. This was by far the most difficult for the data was complex and bulky. The author spent over 12 months seeking a way to present the research in written form.

For instance, one attempt analysed sectors, size and genders independently and attempted to compare them. The outcome was disappointing in its level of clarity.

Another attempt was made to compare sector/size/gender between and across sectors: this proved equally unsatisfactory.

Eventually these periods of intense work followed by deep disappointment proved worthwhile for they produced the outcome which has been presented in the research. These iterations suggested that the first step must be to analyse the 50 firms for

similarities and 'possible' differences. And then analyse these 'possible' differences by sector, size and finally gender.

Summary

This chapter has described the aim of the research which was to test the hypothesis that if owner-managers Scan, Decode and Test environmental signals they will learn to learn how to overcome barriers to growth; further that the data emanating from these activities will be used in an emerging planning process rather than in a planned process.

The chapter also set out the criteria for the research; that is, two sectors incorporating fifty firms divided into three sizes. Definitions were derived for Scanning, Decoding, Testing and Strategy Planning.

The research methodology used was a mix of both qualitative and quantitative paradigms so that the strengths of one would balance the weakness of the other. Thus a semi-structured interview was used in conjunction with a structured questionnaire; both of which were designed to allow some statistical tests to be made.

Face-to-face interviewing was the preferred method over other forms of data collection, such as participant observation or telephone interviews, due primarily to the complexity and size of the data. Hindsight suggested diary keeping may have been beneficial.

A pilot study was undertaken to establish the relevance of the hypothesis. Five firms took part in the interviews which highlighted several ambiguities which needed to be taken into account when designing the main questionnaire.

An analysis of the pilot study data was used to make a first attempt at developing a Learning Spectrum. Firms were approximately positioned along the four bi-polar spectrums of the Learning-Decoding Approach. This provided the author with the reassurance and confidence that an attempt was worthwhile at large scale research.

Finally, this chapter has discussed the data analysed in the main study and how it followed a step-by-step approach, Easterby-Smith et al (1991). The process highlighted five themes running through the research; and indicated that the research data would partially satisfy the hypothesis.

CHAPTER 5: **REVIEW OF THE RESEARCH DATA**
FOR THE 50 COMPANIES

1. **Introduction to the review of the Research Data**

The aim of this research is to discover whether Scanning, Decoding and Testing can be transformed into a Learning Spectrum on which firms can be located; and which will indicate those organisations capable of overcoming the barriers to growth. This process is termed the Learning-Decoding Approach. A further aim is to establish whether the results from this process will be used by owner-managers to design plans that emerge over time rather than be used to develop any strategic plans.

First, a two month pilot study of five firms was undertaken to test out tentatively the hypothesis and to help develop the questionnaire and interview questions. The pilot study comprised a broad sweep of sectors in which a Building Society, Venture Capital Company, Engineering Company and two Marketing firms were reviewed; all employing less than 25 people.

The data derived from this study gave the author confidence to undertake the main research study which took 9 months to complete. The method used to collect the data was a qualitative interview followed by a structured questionnaire, in a face-to-face setting. Telephone interviews were rejected because it was considered the interviews would last 2-4 hours and be taped. Besides it lacked the opportunity to build the rapport necessary to surface the data being searched for. For instance, many spent time after the interview sessions sharing organisational problems they were grappling with and seeking "advice". In fact some asked the author to meet business colleagues - who were having problems: and he felt duty bound so to do.

Participant observation was rejected as irrelevant especially for sole traders whose office premises are their homes. A postal questionnaire was rejected as unable to offer the depth of data or the insights that can be gained from face-to-face sessions. So the structured questionnaire and qualitative interview were selected and the study went ahead.

Fifty organisations were selected: 25 in the Management Consulting sector, and 25 in the Marketing Consulting Sector. Each sector was divided into firm size, i.e. 5 firms with 10-25 employees; 10 firms with 2-9 employees; and 10 firms of sole trader. The interviews took place over a period of 9 months. The author 'cold called' approximately 100 firms in the South East and Oxford areas of England. Those who agreed to be interviewed received a letter formally introducing the researcher and setting out in more detail the research.

The next phase was to analyse the data statistically using the Statistical Package for Social Scientists (SPSS) to establish the significance of relationships between the four factors under research.

Finally, the findings were written up.

The following chapters 5-9 are a review of the research data; where each factor (Scanning, Decoding, Testing and Strategy Planning) is analysed. This chapter reviews the 50 firms in order to determine whether any differences are evident. Chapter 6 reviews these differences by sector, Chapter 7 reviews by size, Chapter 8 reviews for gender; and Chapter 9 presents a cultural explanation for the similarities and differences found throughout the research.

The term micro firm refers to sole trader.

2. Scanning Signals for the Fifty Firms

This section shows the importance in which small business owners hold scanning both of their wider business environment and their client needs; it then reviews the mechanisms by which they scan. First the data from the structured questionnaire is discussed; followed by findings from the qualitative interviews; finally conclusions are drawn.

2.1 Definition of Scanning

Scanning is the process which helps the small business owner maintain or attain a high level of awareness by searching across his/her business environment for signals and clues about links from the present into the future.

2.2. Importance 50 small business owners attach to Scanning

This section discusses the importance owner-managers attach to Scanning.

2.2.1 What the analysis of the structured questionnaire revealed

The interviewees were asked to respond in the structured questionnaire to a number of questions on scanning. These have been set out in table form. The sample size is 25 firms per sector.

Table 1: Q1 from the Structured Questionnaire

"It is a key business skill to be able to read the environment".

Agree	Neutral	Disagree
49	1	0

Table 2: Q8 from the Structured Questionnaire

"The best small business owners ask their customers for feedback about how satisfied they are with the service and or product they receive".

Agree	Neutral	Disagree
47	3	0

Table 3: Q24 from the Structured Questionnaire

"It is necessary to continually look outwards to pick up clues about what is happening to your business".

Agree	Neutral	Disagree
45	5	0

Table 4: Q25 from the Structured Questionnaire

"Seeking fast clear feedback from your customer base is the most important way of finding out what is going on in your business environment".

Agree	Neutral	Disagree
29	16	5

Table 5: Q28 from the Structured Questionnaire

"Most small business owners can run successful businesses without spending any time scanning their business environment".

Agree	Neutral	Disagree
2	6	42

Table 6: Q6 from the Structured Questionnaire

"Keeping customers is more important than getting new ones".

Agree	Neutral	Disagree
23	24	3

This interview data has been reconfigured to differentiate between scanning the broader environment and scanning the customer base (see table 7).

Table 7: Structured Questionnaire - Scanning Data

Question No.	Type of Question	Agree	Neutral	Disagree
1	Broad environment scanning	49	1	
24	"	45	5	
28	"	2	6	42
6	Customer feedback scanning	23	24	3
8	"	47	3	
25	"	29	16	5

The table shows scoring differences in three questions; Q28 - “Most small business owners can run successful businesses without spending any time scanning their business environment?”: Q25 - “Seeking fast clear feedback from your customer base is the most important way of finding out what is going on in your business environment?”: and finally Q6 - “Keeping customers is more important than getting new ones?”.

The remaining questions reveal a substantial degree of consensus.

What the data shows is that it is considered a core competence to scan both the broader environment and the customer base; and a necessary one to apply.

2.2.2 What the qualitative interviews revealed

This sub-section begins with a review of the responses to the questions:

“What effect do you believe scanning has on your commercial success?” and

“How well do you feel you scan the environment on a scale of 1 (poorly);

10 (excellently)?”

These two questions are the core of the scanning issue. As they speak to the outcome of, and skill level in, this tool. This will be followed by the addition of further data presented in the scanning interview.

Of the fifty owner-managers interviewed forty-eight perceived scanning as a key factor in their commercial success. As one partner in the larger sized firms (10-25 employees) remarked:

“It’s one of the most valuable capabilities we have in the development of perspective. It’s big picture looking - understanding.”

Others believed that without engaging in scanning the firm could get into severe difficulties; typical comments were:

“Makes us aware of what’s happening in the market. And we have to absorb that information to ensure we are still doing the right thing for the right people in the right way”.

“It governs the programmes we need to have now. And we are hopefully 6-12 months ahead of the competition”.

“It has kept me in business. I believe I would come across to clients as being naive and out of touch”.

“If we don’t do it we’d lose touch and go out of business. We don’t do it particularly consciously or formally: it’s just something we do as part of everyday life”.

“Vital, otherwise you limit yourself if you are not in touch”.

“Great deal, if I wasn’t knowledgeable, i.e. what’s around the corner, my business wouldn’t succeed at all”.

“Fundamental, if you don’t talk to customers, know what your market wants, you won’t get very far”.

“If I didn’t do it I’d be caught out in an unexpected way. It’s protection”.

Whilst others perceived it in more general business terms:

“Scanning ahead is very important. In managing change scanning is crucial”.

“Intrinsic to our success. We are leaders and by virtue of that you have to be completely up-to-date with the way things are moving”.

“A lot, it helps you to grow with what is expected of you from your clients and seeing the direction of the future and how you need to reshape yourself”.

“Keeps us ahead of the market prompts us to research things”.

“It’s crucial for me to be able to pick my clients. Work I want to do”.

“It helps us modify our materials; prompts us to research things”.

“The holistic view means its extremely important”.

“Very significant, ensures we are positioned correctly”.

Overall their views are encapsulated by their most common words and phrases:

“Intrinsic to our success”; “Fundamental”; “Crucial”; “Vital”;

“It’s protection”; “Awareness”.

Nonetheless, three owner-managers from within this group of forty-eight did not translate their beliefs into behaviour. They were very desultory about the process. Typical comments illustrating their views were:

“I’m so small I’m under the radar. I scan poorly I’ve reached stasis. I don’t want to grow”.

“..... it’s very much what comes along rather than being proactive my scan fills in the troughs in my work. When I have a busy year I don’t do the work for the background I need to be doing”.

“I don’t positively poke my head over the parapet and say there’s a business opportunity. I rely on people to come to me”.

Finally, two felt scanning had only a marginal influence on their commercial success; and comments typifying this view were:

“Not a lot; I get work from people I know, not from scanning”.

“I don’t push myself enough”.

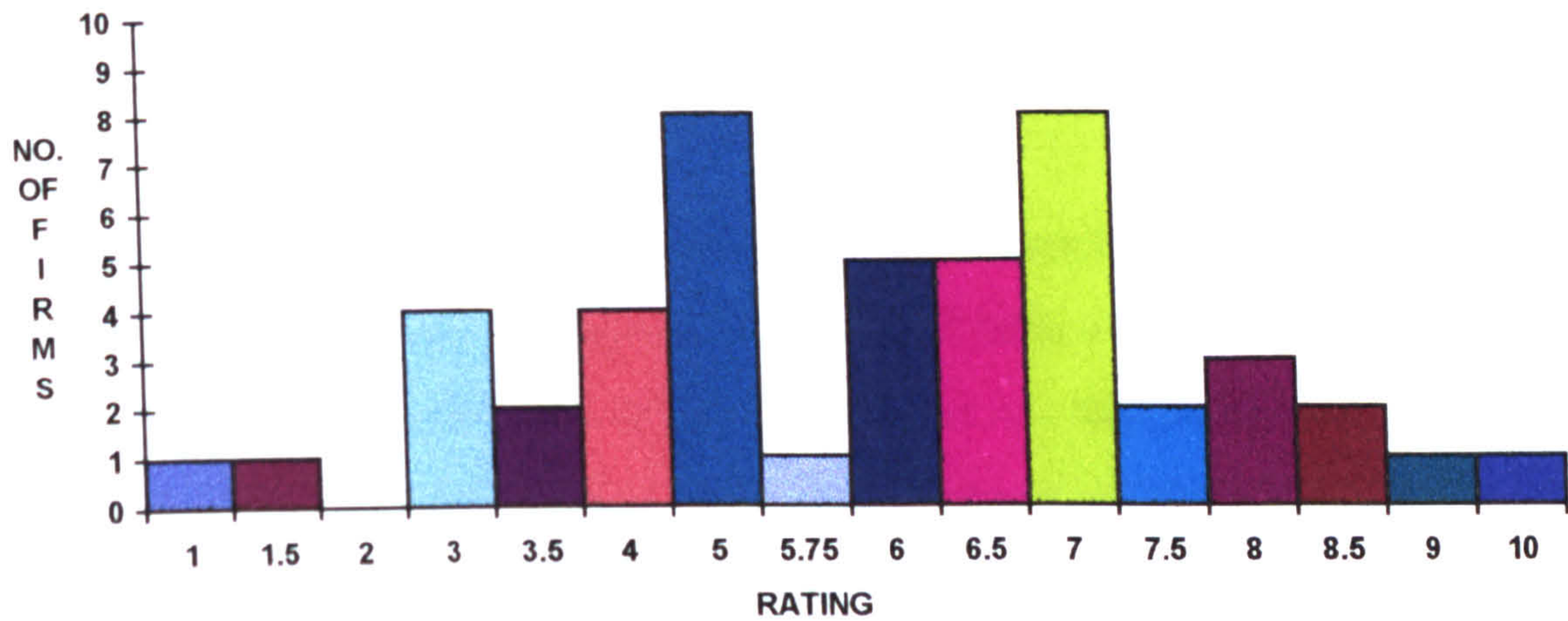
Interestingly, one owner-manager was discovering that his lack of scanning was beginning to cause confusion within the firm, amongst the staff, due to the lack of direction it was generating.

With regard to the second question:

“How well do you feel you scan the environment on a scale of 1 (poorly); 10 (excellently)?” The following ratings appear in table 8.

Table 8: Self-rating on owner-managers' effectiveness at Scanning

Combined 50 Firms *



n = 48; median score is 6; * two did not respond

Due to the wide range of scores it is considered likely that differences exist.

In terms of the process of scanning, this was not undertaken in any formalised or systematic way. It was carried out in face-to-face discussions, telephone conversations or whenever and wherever the opportunity arose to pick up clues and signals.

And the owner-managers qualified their ratings under three headings:

- (1) Lack of a system - this was by far the strongest held reason. Scanning is not undertaken in any formalised manner but rather as, and when, the situation lends itself.
- (2) Should do it better - they felt they would gain added advantage by enhancing their skills but a lack of system precluded it.
- (3) Should do more of it - this was concerned with not having sufficient time, energy or resource to engage further with it.

This is exemplified by the following series of comments:

“I don't do it systematically. As a scientist I feel I'd have to do it systematically it's very much what comes along rather than being proactive”.

“Lack of time. It would be very nice to go to all the meetings; talk to everyone and see what they have to say”.

“Time constraints. When you are the person responsible for going out and getting the business and handling some of your own accounts it’s difficult to find the time”.

“If a company had been in business for 13 months when I went past (sic) and then went in: if I hadn’t known about it, then I’d think we weren’t keeping up”. *(author’s comment: the owner-manager was suggesting that he was scanning inadequately if on his travels through an industrial estate near his company he was not aware of any company that had been in business for a reasonable amount of time)*

“We know we miss things along the way that’s why it isn’t 10”.

“Not 10, because it’s not possible in our environment; so much of what we pick up is conversation, feedback from clients”.

“Quick on our feet at picking up signals that come our way and interpreting them and making sense of them. Where we fall down is not systematically devoting resources to environmental scanning and actively seeking information which doesn’t come our way”.

“We should do it more systematically”.

“We don’t have any formal mechanism for doing that”.

2.2.3 Small business owners’ views on the environment

The overall view is of the environment which is crowded, competitive and turbulent: nevertheless it is providing the small firm with opportunities but they are difficult to get especially if the firm is delivering a ‘soft’ product such as NVQ, Equal Opportunity or Environmental Awareness Systems. This notion of conventional, as opposed to ‘soft’, less conventional products, as an influencer on a firm’s ability to gain business will appear throughout the chapters.

2.2.4 Small business owners’ perception of the clarity of the signals they receive

The interview data has been analysed under the heading: type of signal (see table 9). What it highlights is that a difference exists, because:

29 respondents commented it was confused

20 respondents commented it was strong/clear

1 respondent commented it was weak

Table 9: Clarity of signals received

Combined Sectors (n = 50)

Type of Signal	Number
Confused	29
Strong, clear	20
Weak	1

No clear reason can be offered at this stage as to why signals are perceived as consisting of two different kinds - confused, and strong/clear. Because a strong difference is apparent this factor will be analysed in more depth in the following chapters to establish whether it is due to sector, size or gender.

2.2.5 Where they search for signals

This section reviews the mechanisms owner-managers use for gathering in data. It is set out in table 10 and identifies the variety of places searched and the number of firms involved with using such places.

Table 10: Areas which are searched for signals

Search Area	Combined 50 firms
Discussion/contact with client	43
Relevant literature - Journals, newspapers, books	38
Conferences, Presenting	2
Conferences	14
Formal Associations	22
Networks	35
Writing books	2
Writing articles	2
Radio	2
Courses - Training/ receiving knowledge	4
Own surveys	1
Exhibitions	5
Evening seminars	1
Local business club	1
Direct mail as info/awareness raising mechanism	2
Talking to competitors	1
Client days	1
Helpline for clients	1

What becomes apparent from the data is that three areas predominate in the search for signals:

1. a difference exists with regard to networking between the responses to the structured questionnaire and those in the qualitative interviews (see tables 10 and 11).

- (1) Discussion/contact with client (43 firms)**
- (2) Reading relevant literature (38 firms)**
- (3) Networking (35 firms)**

The first factor - discussion/contact with client - is the most important area for small business owners and is reinforced many times throughout the research. In fact, the expression 'client-watcher' has been coined to highlight how significant this is in their world. For example, several owner-managers' comments exemplify this:

"From clients and from assignments where we try to build relationships over time and try to get to know what they are".

"We pick up signals by working with MDs".

"Getting very close to the customer".

"Antennae is tuned to clients".

"Dialogue with clients".

"Talking to customers".

"We are trying to read the markets by talking to clients, asking who they are doing business with".

"Working with clients. Being in the environment where client group are talking about issues".

The second factor - reading relevant literature - is an obvious one for gaining knowledge, which is the core of the consultant's role. The need to be up to date is paramount as consultants are the purveyors of knowledge and expertise. A comment which represents this need for relevant knowledge is:

"We journal scan constantly; always aware. We take lots of journals prompts us to research things".

Factor 3 - networking - is interesting because it was found that the smaller the firm becomes the more it engages in networking; this is highlighted in Chapter 7, table 59.

Moreover, a difference exists with regard to networking between the responses to the structured questionnaire and those in the qualitative interviews (see tables 10 and 11).

Table 11: Q19 from the Structured Questionnaire

“Networking is an important factor in commercial success”.

Agree	Neutral	Disagree
43	5	2

This gap difference between the 35 firms in table 10 and the 43 in table 11 can perhaps be explained by the cultural distinction between the two sectors with regard to the use of associates and networks in the delivery of projects to the client base. This factor and the three areas will be revisited and explored more fully in the following chapters to ascertain whether any of the differences observed between the firms can be explained by sector, size or gender.

2.2.6 **Frequency of signals they receive**

Once again this is portrayed in table form for ease of understanding (see Table 12).

Table 12: Signal Frequency

Description of Frequency	Combined 50 firms
Regular and ongoing	33
Most client interactions	25
Intermittent	11
Others	1

Clearly, small business owners are bombarded with signals and cues. However, most commented that they received them from their client base in a regular and ongoing fashion: such that they were developing their skills at ‘client-watching’.

Representative comments were:

“In my position they are daily from the client direct, new and existing”.

“Every time we talk to a client”.

“Once you are keyed-in then they are daily when you talk to clients”.

“Our tactic is to get close to the organisation/individual we want to do business with”.

To what extent these differences can be explained by sector, size and gender will be explored in the following chapters.

2.2.7 The biggest problem scanning has identified for small business owners

By defining “managing growth” as, at least, recruiting, upgrading technology, finding new premises or lack of funds for expansion then a difference may be evidenced against “getting new business” (see table 13).

Typical remarks supporting this definition of growth were:

“Lack of money. We have world beating products - the potential is enormous. We don't have the resources to promote. It's Sales/ Marketing investment, we don't have enough money. Worldwide potential is \$400 million, currently it's \$15m.

“Finding a way to employ people who will be entrepreneurs without them wanting to own the business”.

“We invest quite heavily in presentational equipment in line with client expectations and we lead the field”.

“Relates to people and structure, partly skills, partly attitude, partly fit”.

“Because we have gone through such rapid growth it's very difficult to have systems both computers and off-line keeping pace with that sort of growth: and to get the systems right you have to have the people with the right skills to build those systems in place”.

“Managing growth, i.e. taking on new personnel, new equipment and new premises. These are decisions not made lightly. Need lots of thought and planning”.

Table 13: Biggest problem identified by Scanning

Biggest Problem	Combined 50 firms
Managing growth:	3
recruit right people;	10
upgrade technology;	1
find new premises;	1
lack of money	8
	23
Internal issues - need for better organisation	5
Marketing challenges	9
Managing competition	2
Getting new business	17
Time	6
Others	2

This contrast between “managing growth” and “getting new business” will be covered fully in the following chapters.

2.2.8 What scanning told them about their competition

The overall perception is that ‘competition watching’ is not a significant activity undertaken by owner-managers, as is represented by the following remarks:

“We don’t have many competitors. We are unique in our corner of the market. Two Science Technologists with Marketing experience”.

“We don’t have direct competition in this business”.

“Don’t know really”.

“I don’t know who they are”.

“Not people who are exactly the same as me”.

“I don’t know very much what competitors are doing”.

2.2.9 What excites and depresses small business owners about the signals they receive

The overwhelming response to what excited owner-managers was the challenge and the knowledge that the product/service delivered was valued; this was linked with

recognition from the client base. They are challenged by meeting the demands of the market, i.e. the expectations of the client. Typical remarks were:

“The potential to make a difference”.

“The intellectual challenge of tackling things that haven’t been done before or need to be done in a different way”.

In contrast, what depressed owner-managers can only be loosely classified as the client’s inability to take risks, think “outside the box”, or tendency to hold unrealistic expectations of the consultant. Comments describing these depressed views were:

“Are loathe to invest”.

“Fear factor is high - afraid for their jobs”.

“They’ve picked your brains”.

“Grandiose expectations of the client - expecting too much in the time available and not giving enough time themselves and expecting someone to solve all their problems for them”.

2.3 Summary

Scanning is perceived as a key skill for the owner-manager to have and to use. The need to look outward is crucial and accepted. This is supported, in the main, by evidence about the factors which make up the scanning process, that is, how it is carried out, what is searched for, where searches occur, and how effectively owner-managers believe they perform them.

Scanning is carried out informally; no systematic process for conducting it was in evidence. Wherever signals and cues are found, many owner-managers are prepared to take the opportunity to read them. Environment signals are either confused or clear. This contrast will be explored in the following chapters. Evidence prevails which identifies product type as a determinant of the view held of the environment: for instance, the delivery of less conventional products was sometimes linked with a harsher view of the environment.

Structured questions 6, 25 and 28 respectively evidenced possible differences.

Overwhelmingly the search for signals occurred in three areas:

- (1) Discussion or contact with the client;
- (2) Surveying the relevant literature;
- (3) Networking.

The first reinforces the notion that owner-managers are 'client-watchers', picking up valued information at the client base; the second, is an inexpensive and productive way of keeping up-to-date; and for the third, some evidence was found to indicate networking may provide a difference.

Scanning effectiveness revealed a wide range of scores and it was felt that differences could prevail: the median score was 6. A lack of any systematic process was the overriding qualification behind the scores. This view suggests scanning forms part of the owner-manager's working day and is not a pursuit undertaken in any formal manner.

The client base is the main focus for gathering up signals and cues; and the frequency is regular and ongoing. Because this is relevant to most of the small business owners, the term 'client-watching' was coined. Nonetheless, signal frequency revealed an apparent difference.

Indications were evident that a difference may exist between 'managing growth' issues and 'getting new business'.

Within scanning, 'competition' watching' is not an activity widely undertaken; resources are too scarce to indulge in it. What appears to motivate and excite most small business owners is the knowledge that the products they develop and deliver are a significant help to their clients. What depresses them is the lack of responsiveness of the client base to be as excited as they are about what is possible.

3. Decoding Signals and Testing Mental Models and Assumptions for the Fifty Firms

Originally it was felt that these were two distinct and separate activities. Accordingly small business owners were interviewed on that basis. However, after listening to the tapes and reviewing the transcripts it was considered to be more beneficial to combine both into a single review. They are too closely aligned to be separated.

It is apparent that Testing is an activity which can occur during the Decoding process or immediately after it.

This section will show the degree of importance all small business owners attach to Decoding and Testing and how it is a primary Learning Mechanism for them.

3.1 Definition of Decoding and Testing

Decoding is the process of using one or more methods for consciously interpreting the signals and clues emanating from the business environment or marketplace during or after the process of environmental scanning. Whilst Testing is the process of comparing the mental models and assumptions held prior to the decoding process with data received during or after this process. And so putting the small business owner in a position to confirm, disconfirm or modify them. This assists the small business owner to have any perceptions and actions confirmed, or to energise him/her to take action to correct a misperception.

3.2 Importance they attach to Decoding and Testing

This section discusses the importance owner-managers attach to the processes of Decoding and Testing.

3.2.1 What the analysis of the structured questionnaire revealed

Table 14: Q22 from the Structured Questionnaire

“Interpreting the environment is a skill you are born with”.

Agree	Neutral	Disagree
5	16	29

Table 15: Q23 from the Structured Questionnaire

“You can be taught how to interpret the signals you receive”.

Agree	Neutral	Disagree
41	8	1

Table 16: Q26 from the Structured Questionnaire

“Interpreting messages from your business environment is a key skill”.

Agree	Neutral	Disagree
46	4	0

Table 17: Q15 from the Structured Questionnaire

“Effective small business owners very rarely change their views about what makes a business successful”.

Agree	Neutral	Disagree
5*	10	34

* one owner-manager did not respond

Table 18: Q16 from the Structured Questionnaire

“It is not necessary to test your views and assumptions about what makes for success”.

Agree	Neutral	Disagree
3	4	43

Table 19: Q17 from the Structured Questionnaire

“You should not change your business views”.

Agree	Neutral	Disagree
1	1	48

3.2.2 Depicting the structured questions in Table form

For ease of reference the response data has been gathered together into one format (see table 20).

Table 20: Structured Questionnaire - Decoding and Testing Data

Question No.	Type of Question	Agree	Neutral	Disagree
	<u>DECODING</u>			
22	Innate skill	5	16	29
23	Taught skill	41	8	1
26	A key skill	46	4	
	<u>TESTING</u>			
15*	Small business owners rarely change views	5	10	34
16	Testing is unnecessary	3	4	43
17	Small business owners should not change views	1	1	48

* one did not respond

The results from the structured questionnaire (table 20) indicate, overwhelmingly, that Decoding and Testing Mental Models and Assumptions are considered important competencies for the small business owner. Moreover, Decoding is perceived in Q23 to be a learned skill rather than an innate characteristic: although this is confused by the contrasting data apparent in Q22. The inclination to perceive Decoding as a learned skill is supported by many comments from owner-managers on how they believe they decode. Overwhelmingly, it is carried out by being pragmatic, using experience and discussing signals with others. Comments which exemplify this were:

“I can only go on what I see, am told”.

“It’s pragmatism”.

“Pragmatically - what’s this mean for me”.

“A resilient optimism. Nobody’s going to hold your hand”.

“We have a constant communication in the organisation. We have a lot of devices for pooling and we meet regularly both formally and informally”.

“Rely on past experience, relate it to work I’ve done before”.

“Sometimes you don’t question yourself objectively. So I have a

number of people in the industry I can bounce ideas off”.

“I will reject things on experience”.

“By internal discussion”.

“We talk a fair bit”.

“I use my experience, knowledge of previous experience”.

“Two processes; me reflecting personally, fairly consciously, ‘what is this telling me’; at an organisational level there are discussions”.

“We talk about what’s going on, what consequences are, opportunities are”.

Nonetheless, some are unsure whether it is a learned skill or innate characteristic, which is expressed by the high level of neutrality in Q22. One explanation could be found in the description some owner-managers apply to their decoding process. They perceive it as intuitive or ‘gut-feel’. Typical comments were:

“I sense a lot of things. I just get vibes. I use gut-feel. I’m an intuitive person”.

“I use my intuition”.

“It’s intuitive. I don’t think it should be”.

“Psychologically I have a preference for doing things intuitively - it’s gut-feel”.

“With me, it’s a subconscious exercise”.

Further, the results show small business owners should be flexible and open to modifying and adjusting their views which reinforces the view held that Testing is a necessary skill. Although a confused view was presented with Q15, table 17, “Effective small business owners very rarely change their view about what makes a successful business”.

For instance, those who were not prepared to modify their models typically commented:

“If you are experienced your openness is coloured by your experience which means you are not open”.

“Not very good. I guess I have strong and fixed views about what the

right way is and the right approach is in the marketplace we operate in”.

Nevertheless, there is strong disagreement with the follow-up question 17, table 19, “You should not change your business view”. Typical responses to this notion were:

“My mindset is a changing one. I will change if information comes in”.

“Don’t stick to any dogma. Adapt regularly”.

“I do make a conscious effort to check whether I’m making valid assumptions or not”.

This contrast is interesting and will be explained in sub-section 3.2.4.

3.2.3 What the qualitative interviews revealed

This sub-section begins with a review of the owner-managers’ perceptions to the questions:

“What effect do you believe Decoding and Testing has on your commercial success?” and

“How well do you feel you Decode and Test on a scale of 1 (poorly); 10 (excellently)?”

The predominant perception is that they are invaluable, powerful mechanisms which help promote commercial success. This is indicated by the qualitative interviews and exemplified by the following comments:

Decoding

“A lot: you need to read signals accurately and analyse accurately”.

“Makes us profit; effective; more professional; more successful”.

“Determines company direction. Sends messages, tells you are decoding the right thing or you need to change and over what period”.

“If you don’t decode you’re not aware of what’s happening; not in touch with reality”.

“Vital, otherwise the ship sinks”.

“If you decode correctly it brings you success”.

“Great effect. The whole process of Decoding, thinking about it, working with it, talking about it, is developing us at the same time. Gets us to

expand our minds”.

“Enormous effect. It’s the ability to see external reality and perceive with some degree of accuracy”.

“Root of confidence in your judgement. And the degree you can interpret what’s going on and make an investment in it is the degree you have real confidence in your own commercial judgement”.

Testing

The effect Testing has on their commercial success is also met with wide agreement.

One owner-manager put it succinctly:

“Enormous. Fundamental. Seeking clarity and gaining understanding and meaning has vast significance”.

Others commented thus:

“Keeps me on my toes as no-one is 110% right”.

“Fundamental, it’s a fine tuning process”.

“Helps learning. It’s a core need”.

“We’ve got to do more. Clarifies thinking and causes us to make certain decisions about the business”.

“Most of the decisions have been in terms of whether I invest money or not in certain activities. I think the decisions I have made have been proved to be right”.

“My mental model is I don’t hold assumptions. So I’m testing constantly so I reinforce my view that I don’t have any assumptions”.

“Powerful; liberating; I wouldn’t dream of not questioning”.

“Something you have to do otherwise you become locked into your own assumptions”.

“Strong influence; it’s made me go for things I wouldn’t have done”.

“Very important. Difficulty of being a one-man band is doing enough of it”.

“It has strong effect. If I make assumptions and don’t test them I’m likely to go down the wrong path. I test without events forcing me”.

Further, all of the small business owners made reference to the fact that, in one way or another, Decoding and Testing were primary learning tools: a practical and efficient way for them to learn because it acts as a feedback loop. In other words, it acts as an aid to learning and a prompt to action. Typical comments were:

“Mistake we make is we don’t identify all assumptions. We now list our assumptions when we design processes; we never used to”.

“I test out with my peer group (clients) for my work”.

If the two sets of findings are linked together, i.e. Decoding can be learned and it successfully impacts commercial success; it would suggest educational and training interventions would be worthwhile.

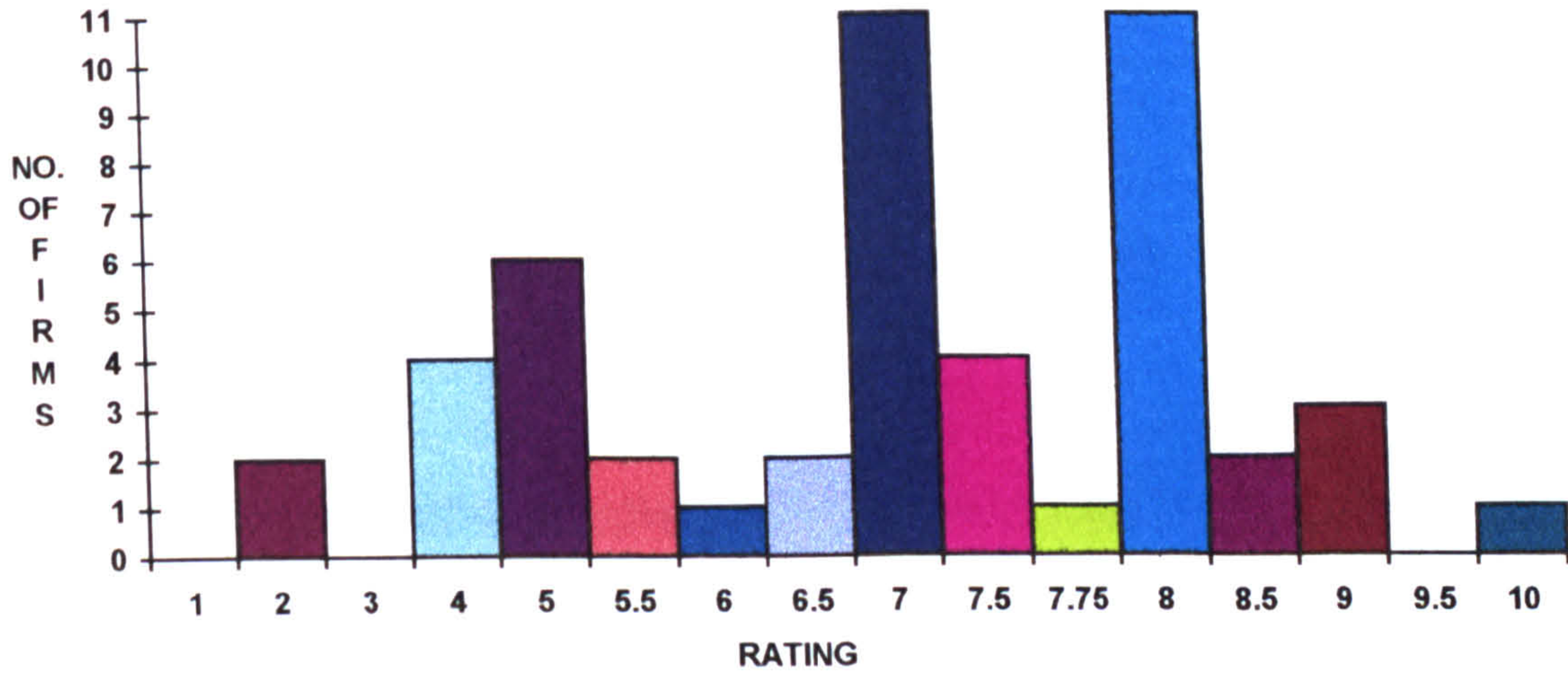
For most owner-managers Decoding and Testing are undertaken informally.

However, some systematic processes are used within firms’ internal environments; that is, firms large enough, hold ‘get-togethers’, lunch time meetings, and brainstorming sessions to Decode and Test. Once again the notion of the client base surfaces as the focal point for small business owners’ attention. It is on this area that most Decoding and Testing is applied.

Due to the wide range of scores in their Decoding and Testing self-rating scores (see table 21): 50 firm median scores for Decoding are 7; and for Testing, 7.5; it is felt that differences will exist.

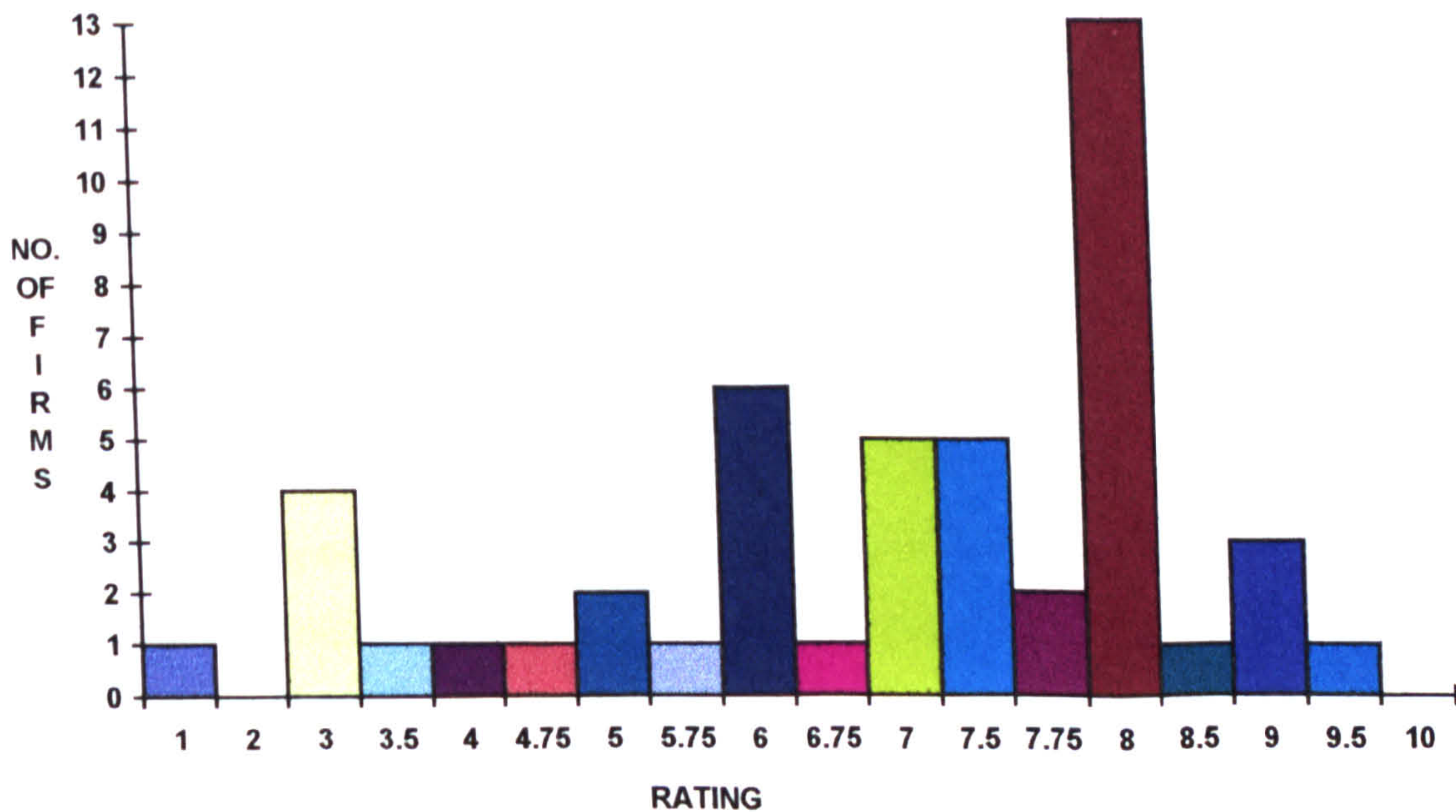
Table 21: Small business owners' self-ratings on their effectiveness at interpreting signals and testing assumptions and mental models
Combined Fifty Firms

Decoding



n = 50; median score is 7

Testing Assumptions and Mental models *



n = 48; median score is 7.5; * two did not respond

Most perceive Decoding as a never-ending process in which they must be involved otherwise they become vulnerable to confusion and falling behind in the business race.

“If you don’t do it, you don’t know which skills to develop”.

“If you don’t learn from your environment it will overtake you”.

“Gives the organisation its market edge”.

“Vital: critical you spot developments ahead of other people”.

“Get competitive edge: respond faster. You can teach clients how to do it”.

“It puts you out of business or lets you be successful. You have to decode then do something sensible with it”.

“Vital, it’s recognising change. If you can’t do that and review it you’ll not survive. You have to have a good mechanism for stopping you if you’ve got it wrong”.

In fact, as mentioned earlier, this process of Decoding was the basis of learning for them. The reasons behind their rating scores give insights into how they use Decoding as a means of learning about themselves and learning how to operate more effectively, for example, several remarked:

“I had inappropriate mental models. I’ve changed my mental models of consulting; results were good but I hurt people on the way. My consulting model has moved to a therapeutic one”.

“My mindset is too optimistic and naive sometimes”.

“I wouldn’t give myself a higher score because some of my failures concern timing”.

Another uses it to learn at both a personal and at an organisational level:

“I have two processes - me reflecting personally, fairly consciously what is this telling me. At that level I find the signals incredibly powerful in terms of changing behaviour and actions. And at an organisational level there are discussions of the Board”.

This slant towards learning about both personal and operational behaviour simultaneously received further reinforcement; for instance one female found it difficult to build effective one-to-one relationships because she threatened any male clients; and so missed many opportunities. So far she had not managed to correct the situation.

Two features stand out from their interviews: first, most would not rate themselves 10 because as several put it:

“That’s arrogant to appear you know everything that’s going on out there. I know I miss a lot”.

“Triumphalism is dangerous, it makes you take your eye off the ball”.

“The track record is there; I got it wrong in January my interpreting process has proved fallible so no 10”.

Second, most feel they could do the Decoding activity better:

“I don’t rate it higher because I still keep falling over things which suggest I don’t do it very well”.

Differences seemed to exist with regard to the gulf between the high and low ratings. Those at the lower end (1-5) evaluated themselves pragmatically but without giving the impression they would improve, or knew how to improve their behaviour.

“Interpretation is a failure on my part. I could do it better”.

“It’s mood swings, so at my best I can pick up everything and interpret objectively without being seen as reactive. But when I’m feeling stressed the signals are personal. So I swing from 5 to 2 so my average is 4”.

“Haphazard”; “don’t do it enough” or “I need to do it at an earlier stage”.

When they did Decode several frequently disregarded the results as they hold fixed views which they find difficult to change due to a resistance to modifying their Mental Models and Assumptions. For instance, one owner-manager remarked:

“I’m fairly set in my ways concerning the business because of the difficulty we have in acquiring new business”.

Whilst another remarked that he was “too stubborn”. This attitude was a major difference between those who were at the higher end of the scale and those at the lower end.

In fact, one micro owner paradoxically was “not sure it has any effect”, all the same she believes it is a key skill, presumably for sustaining the business if not growing it: though she showed her lack of inclination to apply this tool. At the higher end there

was a recognition of the “scope for improvement” and a drive to invest more energy in the process.

Testing also revealed a paradox. All perceived it as a beneficial activity but those who rated below 5 tended to undertake it only when forced to by events. The majority (77%) who rated themselves 6 and above not only considered it a core activity but undertook it willingly. Typical remarks were:

“It forces you to think through things. It’s very easy to go through the day without doing it. I’m doing pretty well on that, because I am thinking about it a lot at the moment and I’m not resting on my laurels. I’m looking for opportunities”.

“It’s ruthlessly talking all the time to people whose input I’m actively seeking on testing those assumptions on any given case”.

“I like to think things through so I test to ensure I’m going the right way. My view of how business works is different from others so you have to think through more carefully than if you were doing what everyone else are doing”.

These findings support the notion that Decoding and Testing are powerful means of learning for the small business owner. As one owner-manager commented: “I use Testing as an aid to learning”. Also it provides two reasons why business opportunities are missed. First, some are insufficiently skilled at Decoding and Testing (those with scores below 5 for each process). Second, as Decoding and Testing is linked to scanning they can only decode what they scan.

“We are so focused on what we do, so we are more likely to miss out on scanning than interpretation”.

“How it fits your schema, our strategy and other signals we are getting. Constantly have to question your views to see whether what you believe is still valid”.

It also suggests that if they hold a model of their business environment; it would be unlikely that their assumptions about running a business would have remained static.

This also appeared to be the case. Their assumptions altered as they decoded and tested signals. For some the changes were quite large and in contrasting directions, for instance one commented:

“I used to be ambitious for size”. (He had since reduced from 60 consultants to 12).

Whilst another said the opposite:

“I didn’t want to get large when I set up. That view has changed”.

(author’s comment: he wants to expand into Europe and the Far East)

3.2.4. Small business owners’ perceptions of their openness and energy for changing their views

The overriding perceptions of the owner-managers are that Decoding and Testing are vital to commercial success; but also that openness and energy for change has an enormous contribution to make.

However, to gain the benefit from these two processes it is a necessary precondition that small business owners are prepared to modify their Mental Models and Assumptions if required - most believe they are. 40 out of 50 held positive views, the remainder held mixed or negative views.

Those owner-managers holding positive viewpoints explained themselves in generally similar terms; they perceived openness as the vehicle for learning:

“I’m keen to change my views on how I see the work we do. I think about it quite a lot. I try not to hold fixed views but I must have some”.

“I was open to listen but not to change. Now I’ve become aware of what I do not know and what does not work if I applied a previously learned model to it. So I’m more open to saying there must be alternative models”.

“I try to put myself out there - it’s an aid to learning”.

“Openness is the core of the business If we were locked into a particular way of thinking we’d be our own dinosaurs”.

“My openness is very high. Views must have a basis in reality; must invite challenge so you are not believing in your own bullshit”.

“Always been high on ability to change - maybe because of the industry

I've worked in".

"My inbuilt character, even outside work, let's me value people's opinions, even if they are different from mine. So I am open to others' views and visions and their perceptions. So if they see a way to go which is different from mine I will listen".

"Very high. Strive to be open".

One talked about liking "to discuss things. I know I will not always be right. I have good people around me who give me a good steer. I'll be open to that steer". Interestingly he went on to say he had become too participative in his style and was having to modify it a little to give a sense of direction to the staff.

A pre-disposition for openness has been found to be tempered with judgement that modifies or maintains Mental Models and Assumptions. As one owner-manager remarked:

"..... but I do stick to my guns: knowing when is the skill".

The danger of not tempering openness with an understanding of the consequences of making a change or not is raised as a cautionary note: that is, being too flexible can confuse the firm's staff.

One female felt she may be too open and it was causing a dysfunctional effect in her leadership role. It confused her staff's understanding of what she wanted from them:

"People complain to me regarding my own behaviour, that very few things seem to be stable or static or immovable, e.g. 'But only last week you were saying' 'Ah, but I read something which changes that!' It's detrimental as a leader. I need to be pointing the way. I'm very aware of the fluidity of mental models. I'm sure there is a core which underpins them but it's at a deep level".

Another owner-manager put it thus: that too much testing can lead to much flexibility "where you go around in circles and never go anywhere".

Another problem is to avoid inertia; as one person commented the danger is to:

“Calculate everything possible against every criteria and every risk and end up doing nothing”.

In contrast to those grappling with the effects of being too flexible several consider themselves to be high on openness but are difficult to convince if they believe they are right about some issue. As one owner-manager said: “Once I think I’m right about something I’m difficult to shift”: knowing when to move or stand your ground is the skill they believe they work hard to develop.

In both these contrasting situations, learning has been driven by the Decoding and Testing processes which act as the means for confirming or disconfirming their views. On the one hand, it explains for some why they are ‘too open’ and for others why they can be intransigent on some issues.

Those who rated themselves above 5 felt they used reasonable judgement with their high degrees of openness; those rated 5 and below were only open to adjusting their Mental Models and Assumptions when events forced them into it. They did not perceive it as an on-going process. Several had not seen their revenue grow over the last 3 years. Whereas the majority who were positive about their openness had seen revenue rise over 3 years. Nevertheless, it cannot be confidently used as an indicator of difference.

Those with mixed or negative views held equally forthright views. Typical remarks were:

“I have strong fixed views about what the right way is and the right approach. If I find the market is moving in a way that’s a mistake I wouldn’t go with it, even if it’s a way to make money. I tend to be intransigent if market or a person asks me to do something I don’t agree with”.

Another owner-manager felt he was too stubborn and remarked that:

“I decide that’s how things are and probably need more evidence than

I should to change my mind about things. With hindsight I ought to have changed much earlier”.

He continued by describing how he had lost a niche in the market by not decoding signals and testing his assumptions earlier or sufficiently enough. It left him competing in a difficult market from which he has not fully recovered.

Less typical, but illustrative of the destructiveness of a lack of openness, were two comments:

“I’m conservative: too slow to change. Rigid at times”.

Another went on to describe a situation with a multi-national client, which represented one third of his revenue, which he lost because he was not sufficiently open-minded: he remarked:

“I tend to stick to techniques I know, clients I know; so I must be missing opportunities without being aware of it”.

What is clear is that most owner-managers had not thought in terms of mental models until interviewed and considered they merely reacted to current signals. On reflection they showed themselves to hold models of, more or less, sophistication and perceived openness as a factor in refining them.

3.3 Summary

Decoding and Testing are considered to be key competencies for the small business owner and act as primary aids to learning and prompts to action; and which positively impact commercial success.

Some uncertainty prevails that Decoding is an innate characteristic which contrasts with the strong evidence that it is learned. This will be examined further in the following chapters to establish whether it is influenced by sector, size or gender.

4. Strategy Planning for the Fifty Firms

In this section an explanation will be given as to why most small business owners perceive Strategy Planning in a poor light and believe it is better to have a goal and let plans emerge rather than have plans which become ends in themselves.

4.1 Definition of Strategy Planning

Strategy Planning is the process of using data from the Scanning, Decoding and Testing processes in order to develop either formal or informal plans for the firm for one year or more ahead. It is suggested that plans may emerge or change because the scanning process does not have a fixed point.

4.2 Importance they attach to Strategy Planning

This section discusses the importance owner-managers attach to Strategy Planning.

4.2.1 What the analysis of the structured questionnaire revealed

As with previous sections the small business owners were asked to respond to a number of questions in a structured questionnaire. These have been set out in table form.

Table 22: Q2 from the structured questionnaire

“You can plan your business in detail”.

Agree	Neutral	Disagree
5	18	27

Table 23: Q3 from the structured questionnaire

“The past is the best guide to the future when setting your plans”.

Agree	Neutral	Disagree
10	16	24

Table 24: Q13 from the structured questionnaire

“To be successful you must have a view on how to achieve your goal”.

Agree	Neutral	Disagree
36	12	2

Table 25: Q18 from the structured questionnaire

“Planning is a waste of time in today’s small business environment”.

Agree	Neutral	Disagree
4	12	34

Table 26: Q20 from the structured questionnaire

“Plans should emerge over time rather than be set in concrete”.

Agree	Neutral	Disagree
41	7	2

Table 27: Q21 from the structured questionnaire

“The key to planning is in seeing patterns emerge”.

Agree	Neutral	Disagree
43	6	1

4.2.2 **Depicting the structured questions in table form**

In order to more readily access the interview data, it has been set out in the following manner in table 28.

Table 28: Structured questionnaire - Strategy Planning Data

Question No.	Type of Question	Agree	Neutral	Disagree
2	You can plan your business in detail	5	18	27
3	Past is best guide to future when setting your plans	10	16	24
13	To be successful you must have a view on how to achieve your goal	36	12	2
18	Planning is a waste of time	4	12	34
20	Plans should emerge over time rather than be set in concrete	41	7	2
21	Key to planning is in seeing patterns emerge	43	6	1

The results of the structured questionnaire indicate that differences could exist. Every question shows some degree of difference. However, the data should be treated cautiously for it is their interpretation of the concept of planning that provides the key. Which is supported by Gibb & Scott (1985) that “there are differences in meaning attached to the term ‘strategic planning’ “.

For instance, only 68% of the respondents believe planning is a productive activity in which to be engaged - Q18. This, however, is qualified by their strong beliefs (82% and 86% respectively) that emerging plans based upon adjustment to patterns being identified in the environment are the most appropriate way to consider the role of planning in the small firm - Qs 20 and 21.

Typical comments supporting this were:

“We see patterns emerging and we do set an overall goal”.

“We don’t set out with a plan at the beginning of the year and try to

follow it. It's much looser. We develop some ideas on things, pursue them and review them and update based upon signals which come out of the market".

"See ways business is mapping out. Patterns emerging very much relating to how we are to expand the business and what direction we should be going".

"We don't want hack work. We scan to spot opportunities and patterns and discuss them".

"Patterns are searched for. Gives us more opportunity".

"We see ways in which business is mapping out. We respond to the market and I believe the pattern which is emerging will require new equipment, new staff. Patterns which are emerging are very much relating to how we are to expand the business and which direction we should be going".

"Yes we look for patterns. That's why scanning is so important".

"We'll see patterns first and that will give us our goal. It's driven from what can be done out there".

"Yes we see patterns emerging the basic goals have to change in relation to client needs".

"Good at envisioning. Try to align with markets' direction".

Nevertheless, this contrasts with the uncertainty prevailing in Qs 2 and 3 that business can be planned in detail and the past is the best guide to the future when setting plans. Mintzberg (1994), citing Benveniste (1972), terms this 'trivial planning', the "tendency to use past trends to predict future developments i.e, predict 'more of the same the experts are not asking any difficult questions. They take the status quo for granted". Typical comments reflecting this contrast concerning the past as a reliable benchmark for the development of new plans were:

"We partly think about what's happened historically and partly we have a continuing process throughout the year."

"We do try to learn from the past."

"I don't count numbers."

"No, we don't plan in the traditional sense of business planning; business not like that."

“Historical, what I can expect from clients.”

“60% historical, 20% feel through the network, 20% up in the air.”

4.2.3. What the qualitative interviews revealed

The small business owners were asked to respond to two questions:

“What effect do you believe Strategy Planning has on your commercial success?”; and

“How well do you feel you plan on a scale of 1 (poorly); 10 (excellently)?”.

Planning is differentiated by small business owners between Business Planning and Operational or Project Planning for the client.

Business Planning concerns, at least, the setting of financial, technical and product guidelines, Storey (1994); Joyce & Woods (1996); Nayak & Greenfield (1994). Whereas Operational or Project Planning concerns the setting up of detailed plans which assist the small business owner deliver the project on time and at the right quality and cost to the client, Gibb & Scott (1985).

Project Planning is undertaken extensively by the fifty firms. Owner-managers believe planning is not a wasted activity when it is employed at the client level to deliver services or projects. The underlying belief is that it is necessary for meeting specific contracts for the client base or for internal infrastructure issues. This is summed up by the comment:

“Planning represents the setting of broad goals for the business and the formulation of specific plans for delivering a project or piece of work to the client”.

This was not the case with Business Planning. Typical remarks supporting the lack of involvement in Business Planning were:

“I don’t have a 5 year plan, but I have an end goal”.

“Not as much as it should. The only strategy we have is to exploit the marketplace we are most strongly in”.

“Very little - we found it impossible to put plans in place: it never worked”.

Some are, in fact, actually closer to a laissez-faire attitude than anything else. One said:

“It’s very much muddling along”; another remarked

“Business runs of its own volition now. I have no influence on the market”.

And yet others said:

“Don’t plan for one year. All I worry about is next month”.

“..... sort of thought about it. I can never make up my mind where I want to go to”.

It would be incorrect to imply that Strategy Planning was rejected by all firms. Some firms perceived it as a useful tool. Comments typical of these views were:

“We have an annual planning cycle and try to pin down for year our financial targets and cost base on month and quarter by quarter bases”.

“Annual business plans for two divisions - includes Marketing, Financial, and Sales Plans”.

“We are developing a number of areas of consulting expertise under the heading of Internal Communications and aim to be seen as a leading edge consultancy in Internal Communications”.

“We take all our staff away for a 3 day planning meeting in the sun somewhere - Tenerife - to develop a 3 year strategy”.

“It’s a bit seductive to say things are going to change so you can’t plan. It can be an excuse for sloppy thinking”.

No loyalty is held towards the Business Plan: it is there, if at all, to be followed broadly, and ruthlessly aborted if unforeseen and attractive opportunities appear on the business horizon. Owner-managers are adamant they will not be hidebound by the plan or the planning process. Typical comments were:

“If they don’t make sense anymore we don’t follow them”; and

“No we don’t follow plans slavishly”.

The overriding view which prevails is that the correct procedure is to hold goals (e.g. to attain a certain revenue level; grow or learn and so on) and let the plans emerge towards that aim in a more or less unstructured manner. Examples typical of this notion of goals were:

“I want to build a business that carries value. One of the problems in the small business consultancy is that the business carries no value, it’s all you. I want a consultancy with 2 other consultants and 1 Marketing Assistant, maybe 2 and any back-up from that”.

“To make enough money and keep going”.

“We have a broad goal and annual goals”.

“The goal is straight forward: to do interesting work and build a business; and develop it for the long term”.

“Goal is we would like to end up an organisation of no more than 10 people so it’s manageable and a core client base of 15/20”.

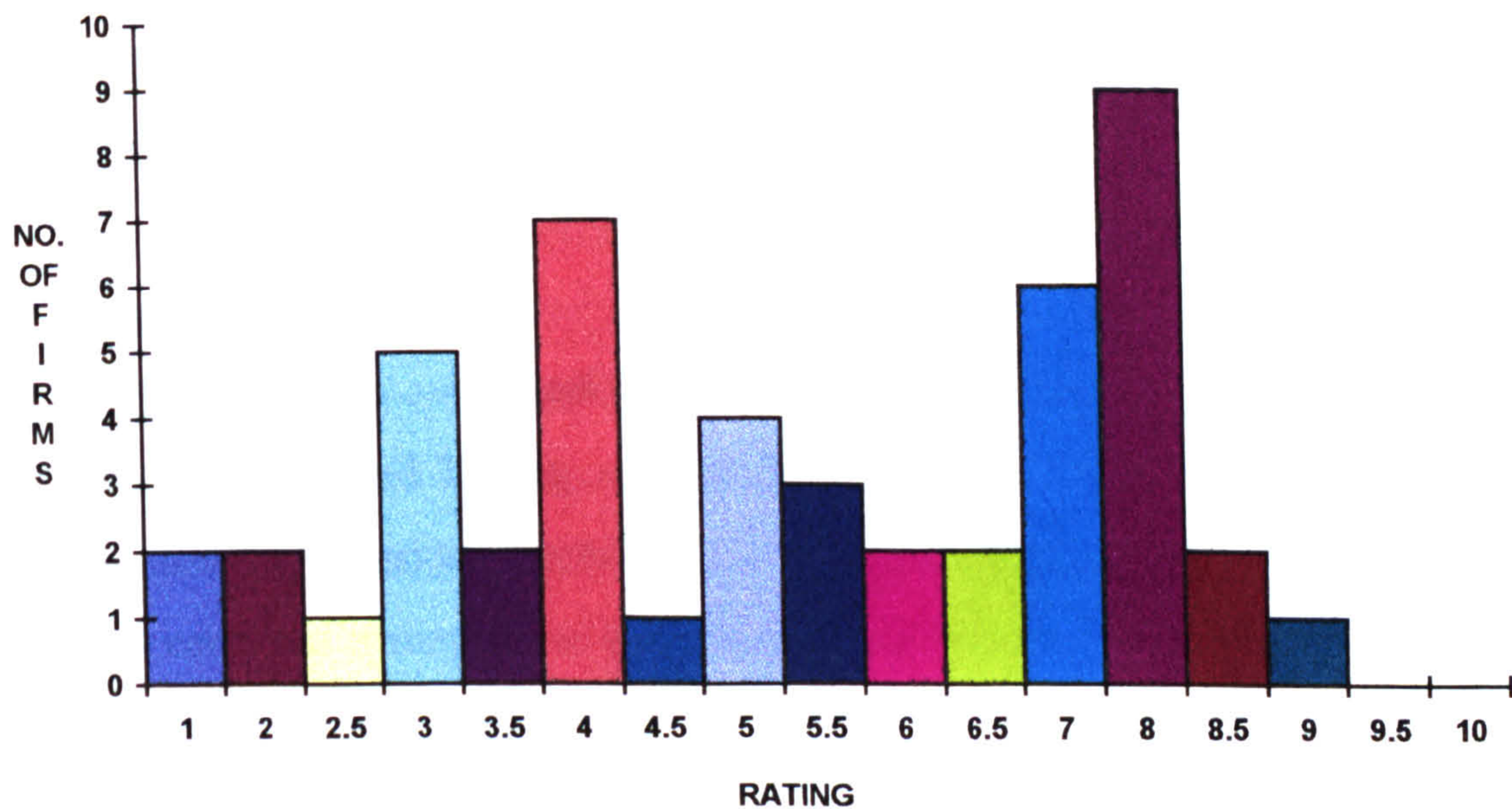
For most firms, any business planning, if it had to be undertaken, would be accomplished by letting the plans emerge rather than developing a rigorous and rigid route to some goal. One owner-manager described how only that day he had been talking with someone where the contract could be over £1m; which if he wins it, it would have been simply opportunistic.

Thus Strategy Planning is not considered to have a significant influence upon their commercial success. Owner-managers feel threatened that plans would reduce their capability to respond to changes in the marketplace.

This indifferent attitude small business owners hold to Strategy Planning is borne out by their self-rating scores (see table 29).

Table 29: Self-ratings on their effectiveness at Strategy Planning

Combined Fifty firms *



n = 49; median is 5.5; * one did not respond

As with the previous self-rating scores the wide range of scores for strategy planning would suggest that some differences could be identified. One explanation which will be examined in the following chapters is the contrast in product type which is delivered to the client base. Some firms deliver unconventional, less demand-driven products which make them define their environments more harshly than those which deliver more conventional ones. Another reason is the rejection of Strategy Planning as a valued activity.

Further, it is of interest to note that the median scores for strategy planning are the lowest of the four competencies, i.e.

Scanning median score = 6

Decoding and Testing median score = 7 and 7.5 respectively

Strategy planning median score = 5.5

This could be explained by the consideration that Strategy Planning is not a worthwhile pursuit and thus effort is not expended. It will be explored further to see if it is influenced by sector, size and gender.

4.3 Summary

The overall perception is that Strategy Planning only plays a secondary role in the small business owner's commercial success. Most owner-managers feel little commitment and loyalty to their plans or the planning process: experience has shown they should not be hidebound by them.

5. Conclusion

This analysis has been concerned with how the fifty firms perceive the activities of Scanning, Decoding and Testing, and Strategy Planning. There is strong support for the view that they consider Scanning, Decoding and Testing to be vital tasks which they must carry out if they are to have commercial success: Strategy Planning is not considered to be an attractive pursuit.

Scanning is focused mainly upon the client base and the term 'client-watching' has been coined to characterise this activity; it is carried out informally. Three areas were identified in which scanning occurs -

- (1) discussion/contact with the client;
- (2) reading the relevant literature;
- (3) networking.

The biggest problems scanning identifies for small business owners splits into two types: 'managing growth' and 'getting new business'. Those firms with the problem of 'getting new business' could be more prone to receive signals intermittently than those who receive them on a 'regular and ongoing way'. This reduction in signals may impact a small business owner's capability to prospect for new business.

On the basis of the small business owners' median scores for self-rating scanning effectiveness (see table 8), differences may exist. Reasons for their ratings can be located under three categories: first, a lack of systematic procedure; second, a requirement to develop their skills; and third, a perception that they would increase its intensity if more resources were available, i.e. time, energy, staff.

Decoding and Testing are perceived as primary learning aids which prompt action. They are undertaken informally; but several of the larger firms have implemented more formalised programmes involving their staff.

The signals scanned at the client base are the focus of Decoding and Testing: and the most beneficial results are derived when the owner-managers are prepared to use the information to review their Mental Models and Assumptions. However, the results of the interviews reveal that Decoding and Testing do not automatically transform into action. Although the owner-manager may have mastered the skills of Decoding and Testing, without a preparedness to be open to adjusting the models in use, it is a sterile activity.

Possible differences were indicated by the wide range of Decoding and Testing self-rating effectiveness median scores (see table 21).

Strategy Planning is not an attractive proposition for small business owners. Any commitment to it is tempered by the view that it is an anathema to adhere rigidly to any plan.

All agree that the way forward for them in planning is to have broad goals (usually revenue targets) and observe patterns and let the plans emerge. This permits them to remain poised to accept challenges, grasp opportunities and manoeuvre with events. Nevertheless, planning at the client level, as opposed to Business Planning, is undertaken extremely seriously. Plans are set out in detail to deliver a project or piece of contracted work.

The wide range of self-rating effectiveness scores show a possible difference (see table 29). One reason can be found in the type of unconventional, soft, less demand-led products some are delivering, which makes them define the marketplace in more harsh terms. Another reason is that some reject the notion of Strategy Planning as worthwhile.

The following chapters will take up the possible differences highlighted in this chapter and analyse them according to sector, gender, and size. The areas which will be analysed are:

Scanning: possible differences:

- What the mixed responses in questions 6, 25 and 28 respectively suggest;
“keeping customers is more important than getting new ones?”
“seeking fast clear feedback from your customer base is the most important way of finding out what is going on in your business environment?”
“most small business owners can run successful businesses without spending any time scanning their business environment?”
- What the wide range of effectiveness rating scores reveals.
- What the difference in the environmental signal clarity suggests.
- What the three areas where signals are searched for suggests, i.e.
 - (1) discussion/contact with the client
 - (2) reading relevant literature
 - (3) networking
- What relationship exists between “managing growth” and “getting new business”; and whether there is a link with the frequency of signals received by owner-managers.

**Decoding signals and Testing Mental Models and Assumptions:
possible differences:**

- What the mixed responses to question 22 suggest;
“interpreting the environment is a key skill you are born with?”
- What the wide range of effectiveness rating scores reveals

Strategy Planning: possible differences:

- What the mixed responses to all the questions suggest.
- What the wide range of strategy planning rating effectiveness scores reveals

CHAPTER 6 : **REVIEW OF THE RESEARCH DATA**
FOR THE 50 COMPANIES BY SECTOR

1. **Introduction**

The aim of this chapter is to analyse how far the differences in Chapter 5 can be attributed to differences in sector. To approach the research in this manner reduces the amount of data that needs to be analysed whilst keeping the integrity of the study intact; for there was a great deal of data reviewed in the previous chapter that showed that a significant number of firms were in agreement with many of the component parts of Scanning, Decoding and Testing; to analyse them again would only add to the complexity of research whilst not producing any further benefits.

Table 33: **Structure of the research**
 Firstly, sector differences in Scanning will be examined, as shown in Qs 6, 25 and 28 reported in tables 30, 31 and 32 and summarised in table 33.

2. **What the analysis of the structured questionnaire revealed for questions 6, 25 and 28**

These have been set out in table form. The sample size is 25 firms per sector.

Table 30: **Q6 from the Structured Questionnaire**

“Keeping customers is more important than getting new ones”.

	Management Sector	Marketing Sector
Agree	11	12
Neutral	12	12
Disagree	2	1

Table 31: **Q25 from the Structured Questionnaire**

"Seeking fast clear feedback from your customer base is the most important way of finding out what is going on in your business environment".

	Management Sector	Marketing Sector
Agree	13	16
Neutral	8	8
Disagree	4	1

Table 32: Self-rated Q28 from the Structured Questionnaire

Management “Most small business owners can run successful businesses without spending any time scanning their business environment”.

	Management Sector	Marketing Sector
Agree		2
Neutral	2	4
Disagree	23	19

This interview data has been reconfigured to differentiate between scanning the broader environment and scanning the customer base (see table 33).

Table 33: Structured Questionnaire - Scanning Data

Question No.	Type of Question	Agree		Neutral		Disagree	
		Mgt	Mktg	Mgt	Mktg	Mgt	Mktg
28	Broad environment scanning		2	2	4	23	19
6	Customer feedback scanning	11	12	12	12	2	1
25	“	13	16	8	8	4	1

Table 33 shows no evidence of sector differences for Qs 6, 25, and 28:

[Chi sq. = 0.3767; p = > .05];

[Chi sq. = 2.3102; p = > .05];

[Chi sq. = 3.04; p = > .05]

2.1 What the wide range of scanning self rating scores revealed

This sub-section begins with a review of the responses to the question:

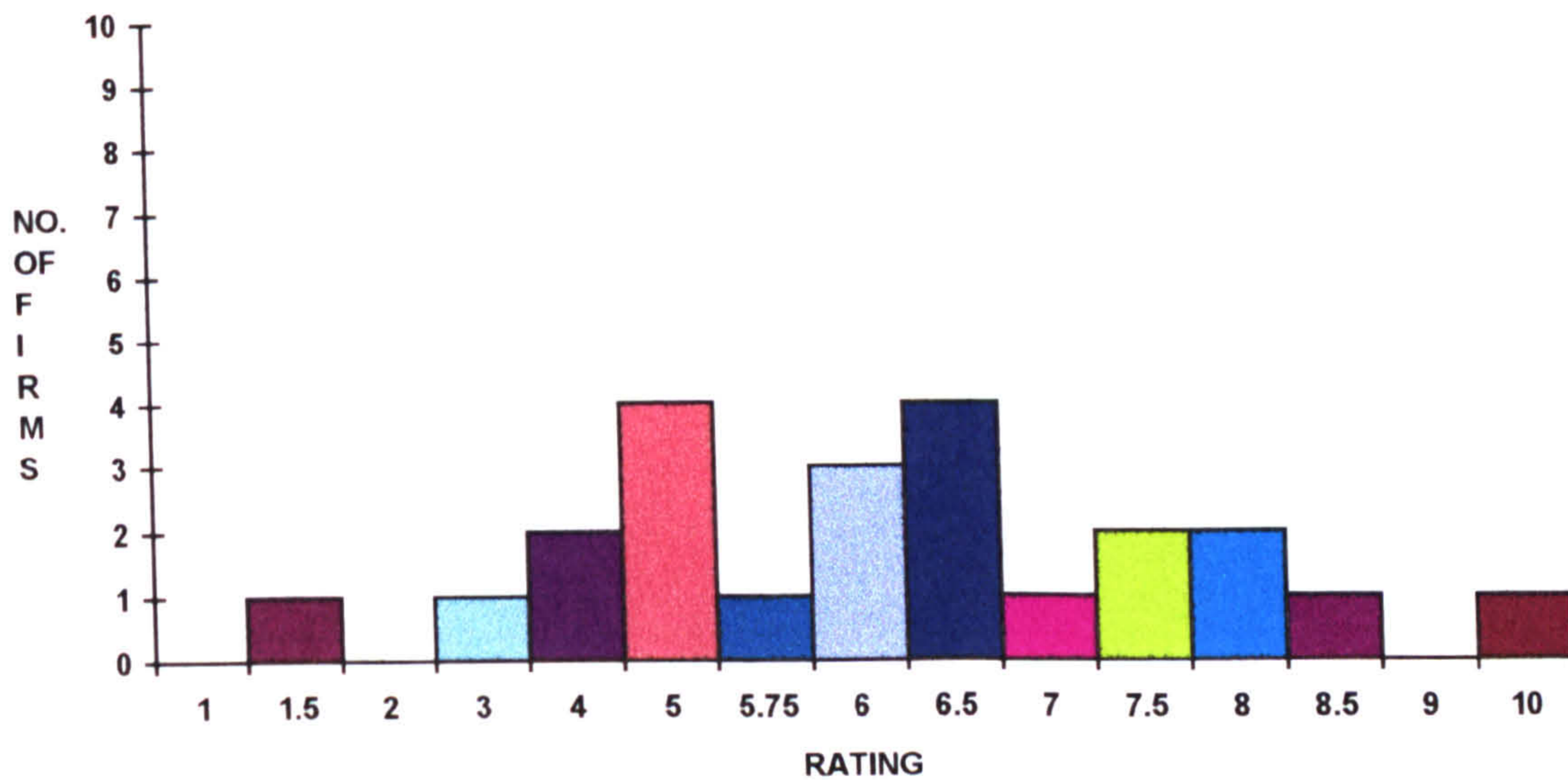
“How well do you feel you scan the environment on a scale of 1 (poorly); 10 (excellently)?”

the following ratings appear in table 34.

On the basis of the median scanning scores, no significant differences are evident.

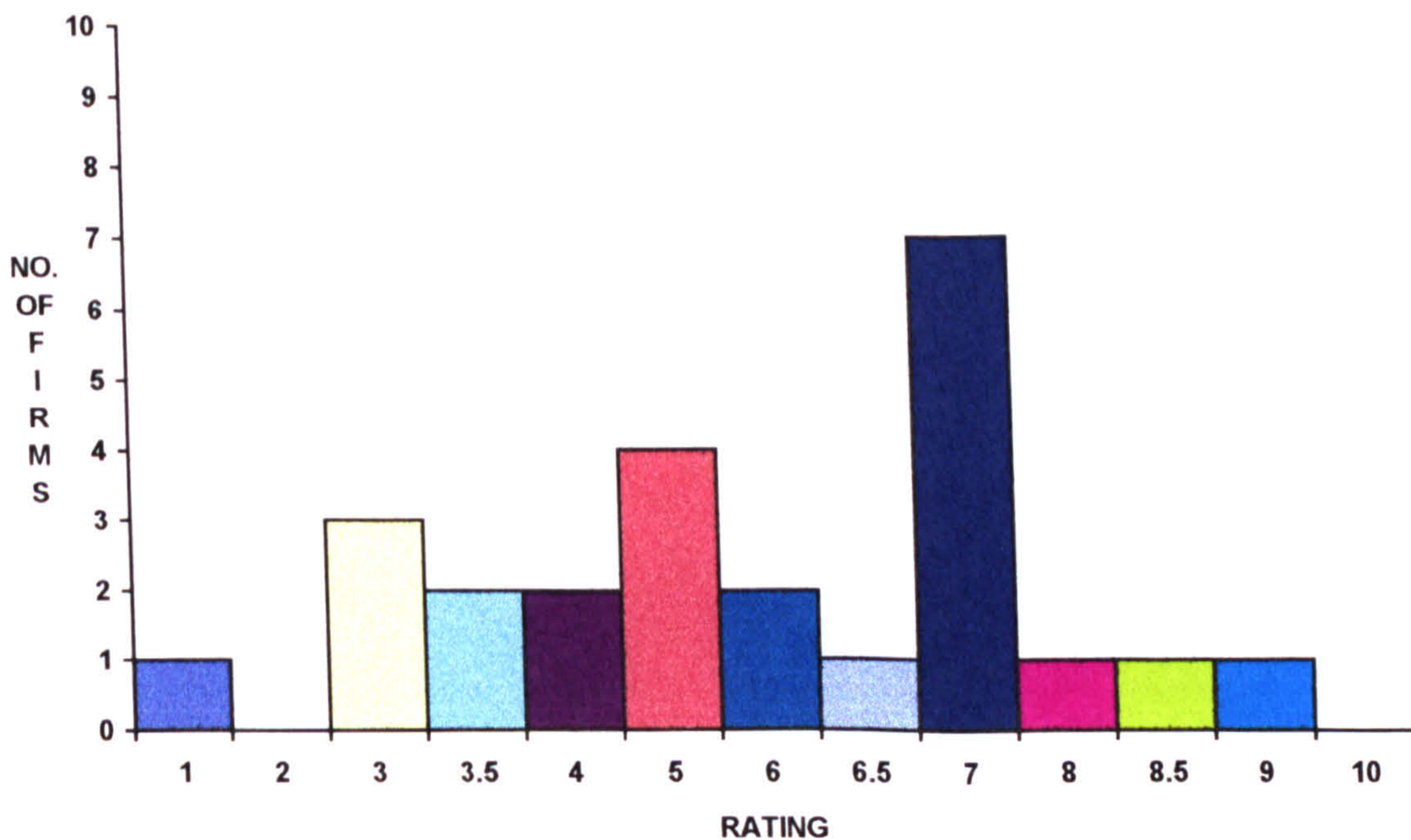
Table 34: Self-ratings on owner-managers' effectiveness at Scanning

Management Consulting Sector *



n = 23; median score is 6; * two did not respond

Marketing Consulting Sector



n = 25; median score is 6

t = 0.02925; df = 46; p = > .05 (for one and two-tailed tests)

On the basis of the median scores and t test it is considered that no sector differences are evident.

2.2 What the difference in environmental signal clarity revealed

The interview data has been analysed under two headings; sector and type of signal (see table 35). What it highlights is no sector difference exists.

$$\text{Chi sq.} = 1.034 \quad p = > .05 \text{ (sector)}$$

Table 35: Clarity of signals received

Type of Signal	Mgt Consulting	Mktg Consulting
Confused	14	15
Strong, clear	10	10
Weak	1	

The conclusion drawn from this data is that the two different types of signals - confused, and strong/clear - are not accounted for by sector.

2.3 Where each sector searches for signals

Set out below in table 36 is the breakdown of areas where the sectors search for signals.

It is apparent from the data that the sectors search for signals.

Table 36: Areas which are searched for signals

Search area	Management Sector	Marketing Sector
Discussion/contact with client	20	23
Relevant literature - Journals, newspapers, books	22	16
Conferences, Presenting	2	
Conferences	5	9
Formal Associations	12	10
Networks	18	17
Writing books	2	
Writing articles	1	1
Radio	1	1
Courses - Training/ receiving knowledge	3	1
Own surveys		1
Exhibitions	3	2
Evening seminars		1
Local business club		1
Direct mail as info/awareness raising mechanism		2
Talking to competitors		1
Client days	1	
Helpline for clients	1	

It is apparent from the data set out in table 36 that three areas predominate in the search for signals.

What is of interest is that factor one: 'discussion/contact with the client', is the most widely used scanning mechanism and this supports the findings of Joyce et al (1995) in their survey of business networks. They placed 'customers' at the top of their list as the most influential in proffering advice to, and having the highest frequency of discussions with, small business suppliers.

Further, factor 2 'reading the relevant literature' is identified as a sector difference:

[Chi sq. = 3.9472; p = < .05]

- (1) Discussion/contact with client (43 firms) - (Mgt = 20; Mktg = 23)
- (2) Reading relevant literature (38 firms) - (Mgt = 22; Mktg = 16)
- (3) Networking (35 firms) - (Mgt = 18; Mktg = 17)

The difference is explained by the Management Sector's culture of reading more extensively in contrast to the Marketing Sector which contains its reading more to trade papers and makes no mention of more academic literature. Comments typifying this view were:

"Reading trade journals".

"Read trade press, scour for ideas".

"Trade press".

"I don't take much notice of journals".

Whilst comments exemplifying the Management Sector's reading habits were in sharp contrast:

"I read extensively. I've never stopped being a student. Some are specific. I get them from academic libraries. I get periodicals. I watch for academic books coming through. I have extensive library at home".

"Reading environmental papers".

"Writing books".

"I read articles/books. You realise there is a slough of opinion. I feel it's important we are not isolated".

"Being a consultant means you always have to know".

"Professional journals".

“I read books, get some journals”.

“Journals”.

“I read about what key people are doing”.

“I read papers”. (*academic, author’s insertion*)

“Scanning of relevant literature”.

“We take lots of journals - we pick up signals from a broad base”.

“Journal scanning constantly”.

“Reading literature outside public sector I keep stressing reading”.

Both sectors use networks extensively to gather in information. Examples exemplifying this viewpoint were:

Marketing Consulting Sector

“Another issue is size because we have got a number of big players in our marketplace. G.M., for instance, looked at us - you are not big enough to handle our business and we also have no European presence so we are working on that at the moment - developing a European network”.

“Large network of gathered information”.

“I network through people. We have extensive database on computer - anyone I meet goes on database and I maintain contact”.

“I see networking as something that is a good underlying strategy if you are working towards a strategic long-term goal”.

“Networking is meeting people, talking to people, keeping relationships going on basis it brings in a wave of interlaced contact. So that at some later stage you think I need ‘x’ you can go into your web of people. It is a resource to call on at some stage if I need it”.

“Talk to clients, new, existing people in industry; people outside industry to get their perception”.

“Our research - we talk to clients and non-clients about their knowledge, how they make decisions, how they appointed people, what they looked for”.

“I get information from a variety of consultants like Kingfisher - they tell me how they are interfacing through more global feedback”.

“Chairman is pan-world, is based in Vancouver. His network is pan-world. He is constantly keeping us closer to trends/markets”.

Management Consulting Sector

“Talking to contacts”.

“We go out into market. We get feedback from people and we talk about it and we analyse what is happening”.

“It’s an extensive network; approximately 50 contacts”.

“Signals that get me to act are almost telepathic; ‘it’s time you called someone’ - there’s no rational reason for wanting to make the call. My intuition has done me good service. I respond to it”.

“Principal method for getting signals is networking”.

“Network meets every 6 months - various consultants which I pull together; and one network which meets in the autumn of international consultants”.

However, the Management Consulting Sector have a further use for networking as a resource pool. A means for working with, or involving, others to deliver a piece of work for a client which the firm, especially micro firms, cannot satisfy alone. They find themselves as their own scarce resource and business opportunities can be lost if the client senses the firm does not have the resource available to deliver.

The following statements are in support of this view:

“With organisations being so complicated, having so many aspects, they need helping with the changes going on. But a small organisation, just the two of us, we do feel lost to do all of it and part of our reasoning behind getting the network was that our associates have different skills. We tend to work with our associates because we felt we were not up to scratch as in other areas. Instead of trying to do everything, be all things to all men we name our associates and organisations can see we can deliver”.

“I work with other trainers in companies”.

“Five associates work in two different ways: three trade as own company -

they are self-employed and I bill them a daily rate, I earn 10%. Two others trade as MKA” (owner-manager’s own firm, author’s comment)

“We’ll probably grow with associates”.

“We employ 20 associates. How big we want to be is our biggest problem.

We’ve been expanding steadily”.

This further use of networking provides an explanation for the sector difference apparent in the structured questionnaire (see table 37), and between the qualitative responses and structured questionnaire (see tables 36 and 37).

Table 37: Q19 from the structured questionnaire

“Networking is an important factor in commercial success”.

	Agree	Neutral	Disagree
Management Sector	25	-	-
Marketing Sector	18	5	2

[Chi sq. = 8.138; p = < .02]

Further, this use of networks, in the guise of associates, fits Szarka’s (1990) findings, citing the work of Lorenzoni & Ornati (1988), that the cooperative model of networking is “..... a two-sided or multi-sided partnership where, in relation to a specific project, the partners are broadly equal, working together on a basis of trust stemming from mutual dependence”.

2.4 Frequency of signals they receive

Table 38 below portrays this in table form for ease of understanding:

Table 38: Signal Frequency

Description of Frequency	Management	Marketing
Regular and ongoing	22	11
Most client interactions	11	14
Intermittent	1	10
Others	1	

A sector difference appears with signals that are intermittent: the Marketing Consulting Sector scores higher than the Management Consulting Sector. One explanation could be linked to self-rating effectiveness (see table 34): if an owner-manager believes (s)he receives intermittent signals it could be because (s)he scans ineffectively and misses many. The Management Consulting Sector have eight self-rated at five or under; whereas the Marketing Consulting Sector have twelve at five or under.

Typical comments supporting the similarity of views from both Sectors regarding the ineffectiveness of their scanning were:

Management Consulting Sector

- “My range is limited”.
- “Sometimes I don’t do it at all - it’s random”.
- “As a general rule I’m pretty poor at it”.
- “In terms of getting contacts and presenting myself to them as available for work it’s 1 to 2. My major weakness is I do not push myself enough after I’ve had the idea that it’s a good idea to move forward toward a particular client”.
- “In terms of my own standards I could do it more systematically”.

Marketing Consulting Sector

- “I do not do it excellently”.
- “Lack of time”.

“Fairly poorly, lack of time”.

“I’m below average. I should do it more.

“I don’t do any surveying, nor telephoning around”.

“I rely on people to come to me”.

“I scan poorly”.

“I don’t do it systematically. At least I do something so I’m not at the bottom. It’s very much what comes along rather than being proactive”.

However, reasons why the Marketing Consulting Sector receive more intermittent signals and correspondingly why more rate themselves at 5 or below cannot be accounted for by sector. An explanation will be sought in the following chapters under size and gender.

2.5 **The biggest problem scanning has identified for small business owners**

A sector difference occurs with ‘managing growth’ and ‘getting new business’ - [Chi sq = 6.854; $p = < .05$]. Marketing find ‘getting new business’ a bigger problem than Management, whereas Management find managing growth, i.e. ‘recruiting the right people’ and ‘lack of money’ their predominant concern (see table 39).

Frequency of signals and self-rating scanning effectiveness may explain this dichotomy. In this case, the Management Sector receive a higher number of regular and ongoing signals and a lower number of intermittent ones and has less owner-managers self-rating their effectiveness at 5 or under than the Marketing Sector (see tables 34 and 38).

Table 39: Biggest problem identified by Scanning

Biggest Problem	Management	Marketing
Managing growth: recruit right people; upgrade technology; find new premises; lack of money	7 <u>8</u> 15	3 3 1 1 8
Internal issues - need for better organisation		5
Marketing challenges	6	3
Managing competition	1	1
Getting new business	4	13
Time	5	1
Others	1	1

Comments which typify this dichotomy were:

Management Consulting Sector

“Making a decision to take on a third person because the environment has picked up”.

“Making the transition from sole trader, working with associates to possibly a closer-knit association; a more formal partnership”.

“Having enough time as a sole trader to take care of all bits and bobs. Developing new business whilst delivering expert product - I need to harness people into the business”.

“Our current situation is how to grow without a capital base. It’s related to how you develop companies as organisms growing. The banking system has been appalling. No access to Venture Capital”.

“How to manage our own growth 5 years grown turnover of £1.5m”.

Marketing Consulting Sector

“The network breaking down of people you developed in the past. It was made when I was in employment 5/6 years ago - it will become a

weak source - it could be my downfall really. Over time the contacts become weaker”.

“Turnover”.

“To find companies which are out there and need you. But problem is how do you find them”.

“Getting work. It shouldn't be cyclical but it is”.

“Generating a bigger flow of inquiry. At end of day you can't get a job without getting an inquiry. Even if your score rate is 1:10 it means you need more inquiries”.

3. Summary

Scanning is considered a necessary and valued skill by owner-managers.

No sector differences were found for Qs 6, 25 and 28 from the structured questionnaire; between the t tests and median scores for self-rating effectiveness; and for clarity of signals; however, why signals are perceived as either clear or confused cannot be accounted for by sector.

Within the three areas where signals are searched for: (1) discussion or contact with the client; (2) reading the relevant literature; and (3) networking; sector differences were evident in areas (2) and (3). The difference in area 2 - reading the relevant literature - was defined as driven by culture: the Management Sector appear to read a wider catchment of literature whilst the Marketing Sector contains itself more to trade journals. However, the reason why this is so cannot be accounted for by sector and will be examined further under size and gender.

Two differences in area 3 - networking - were identified. First, Management use networking as an added resource for delivering service to the client base. Second, Management perceive it as an important factor in their commercial success. The first explains the second. This also provides an explanation for the difference between the responses to the qualitative interviews and the structured questionnaire. In the former

both sectors use networking extensively to gather information; in the latter Management perceive networking more as a key factor in their commercial success.

Signal frequency highlighted a sector difference. The Management Sector receive regular and ongoing signals, whereas the Marketing Sector receive a much higher level of intermittent ones. An explanation could be provided by the number of Marketing owner-managers (12) who self-rated their scanning effectiveness at 5 or under, compared with the number of Management owner-managers (8). However, it cannot be solely accounted for by sector and it will be explored further under size and gender.

Finally, a sector difference was apparent in the area of biggest problem identified by scanning: for Management it is 'managing growth'; for Marketing it is 'getting new business'. An explanation could be found in the type of signals received by the sectors and the owner-managers self-rating effectiveness scores. Management receive regular and ongoing ones; Marketing receive more intermittent ones. Management have less owner-managers self-rating their effectiveness at 5 or under than Marketing. This combination may influence the acquisition of business.

4. Decoding Signals and Testing Mental Models and Assumptions for the Fifty Firms by Sector

This section will analyse the possible differences which were raised during chapter 5; namely: what the mixed responses to question 22 suggest; and what meaning can be attributed to the self-rating effectiveness scores.

4.1 What the analysis of the structured questionnaire revealed for Q22

Table 40: Q22 from the Structured Questionnaire

"Interpreting the environment is a skill you are born with".

	Management Sector	Marketing Sector
Agree	3	2
Neutral	9	7
Disagree	13	16

When the data in table 40 is subjected to statistical analysis no difference is revealed:

$$\text{Chi sq.} = 0.76 \quad p = > .05$$

4.2 **What the wide range of Decoding and Testing effectiveness self-rating scores revealed**

This sub-section begins with a review of the responses to the question:

“How well do you feel you scan the environment on a scale of 1 (poorly); 10 (excellently)?”

No significant sector differences are apparent in the owner-managers’ Decoding and Testing self-rating scores (see table 41): t tests for Decoding and Testing are:

Decoding: $t = 0.3609$; $df = 48$; $p = > .05$ (for one and two-tailed tests)

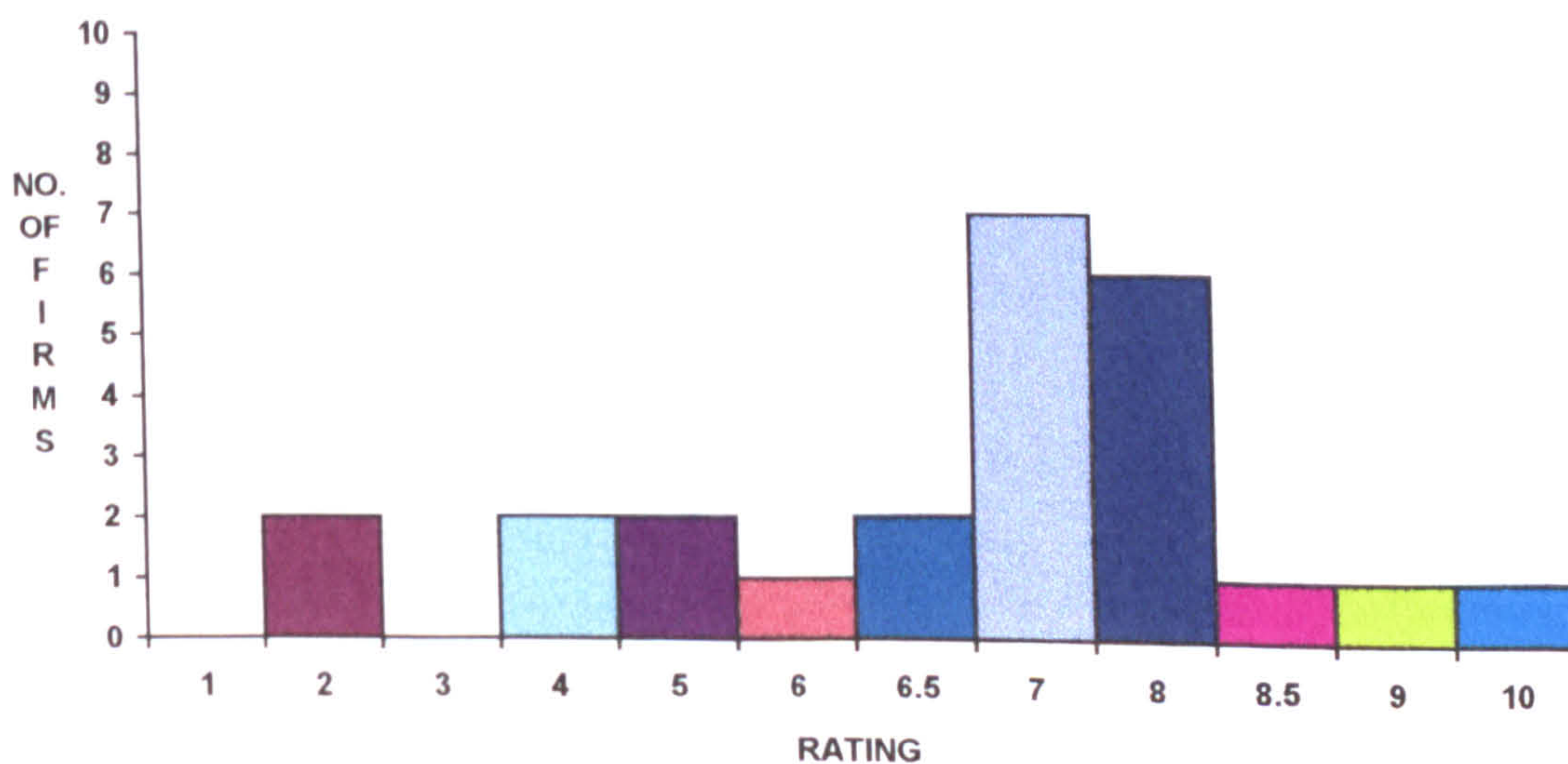
Testing: $t = 0.9534$; $df = 46$; $p = > .05$ (for one and two-tailed tests)

Further, the Management Sector median for Decoding is 7; for Testing is 7; whilst the Marketing Sector median for Decoding is 7.5; for Testing is 7.75.

Table 41: Small business owners’ self-ratings on their effectiveness at interpreting signals and testing assumptions and mental models

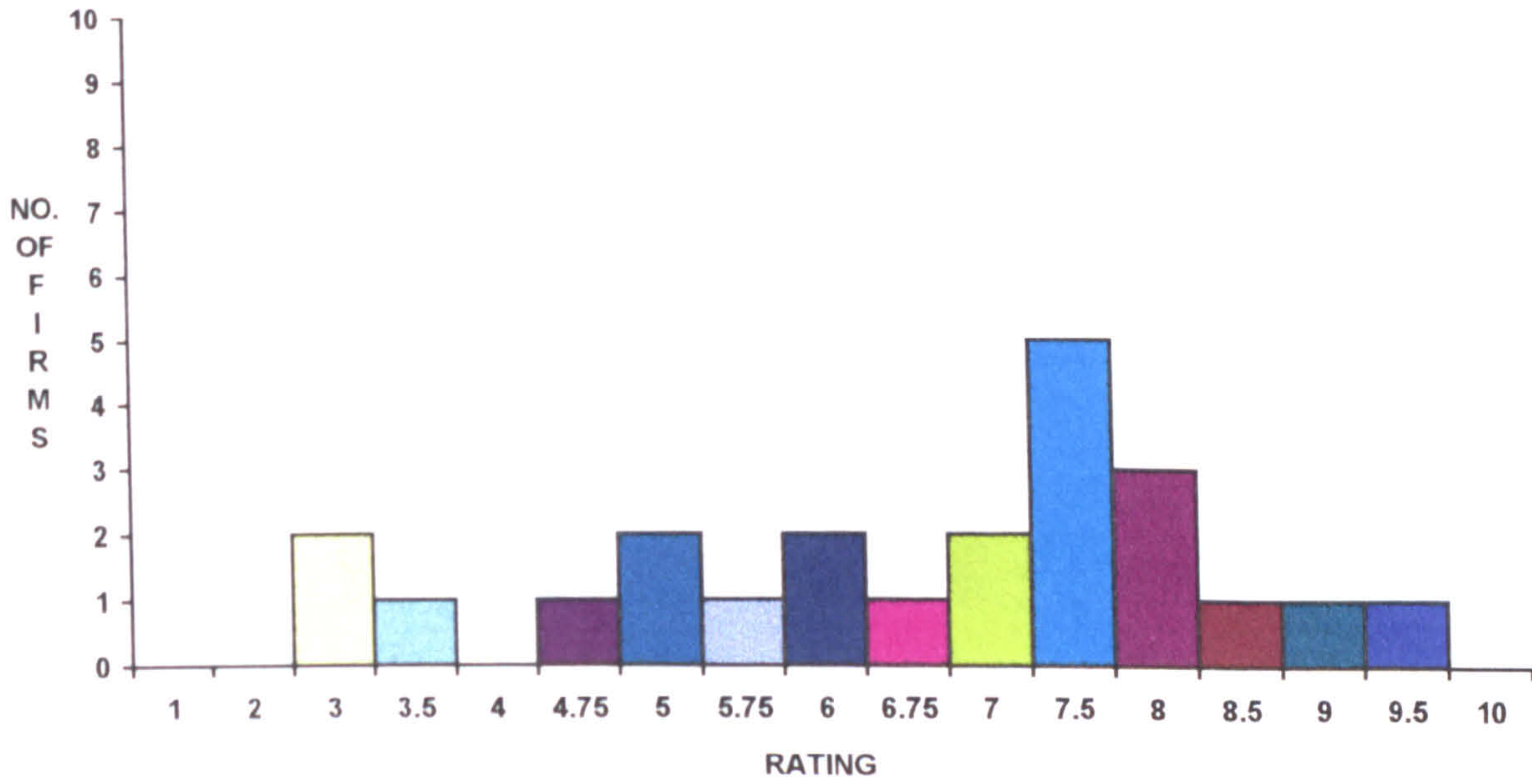
Management Consulting Sector

Decoding



n = 25; median score is 7

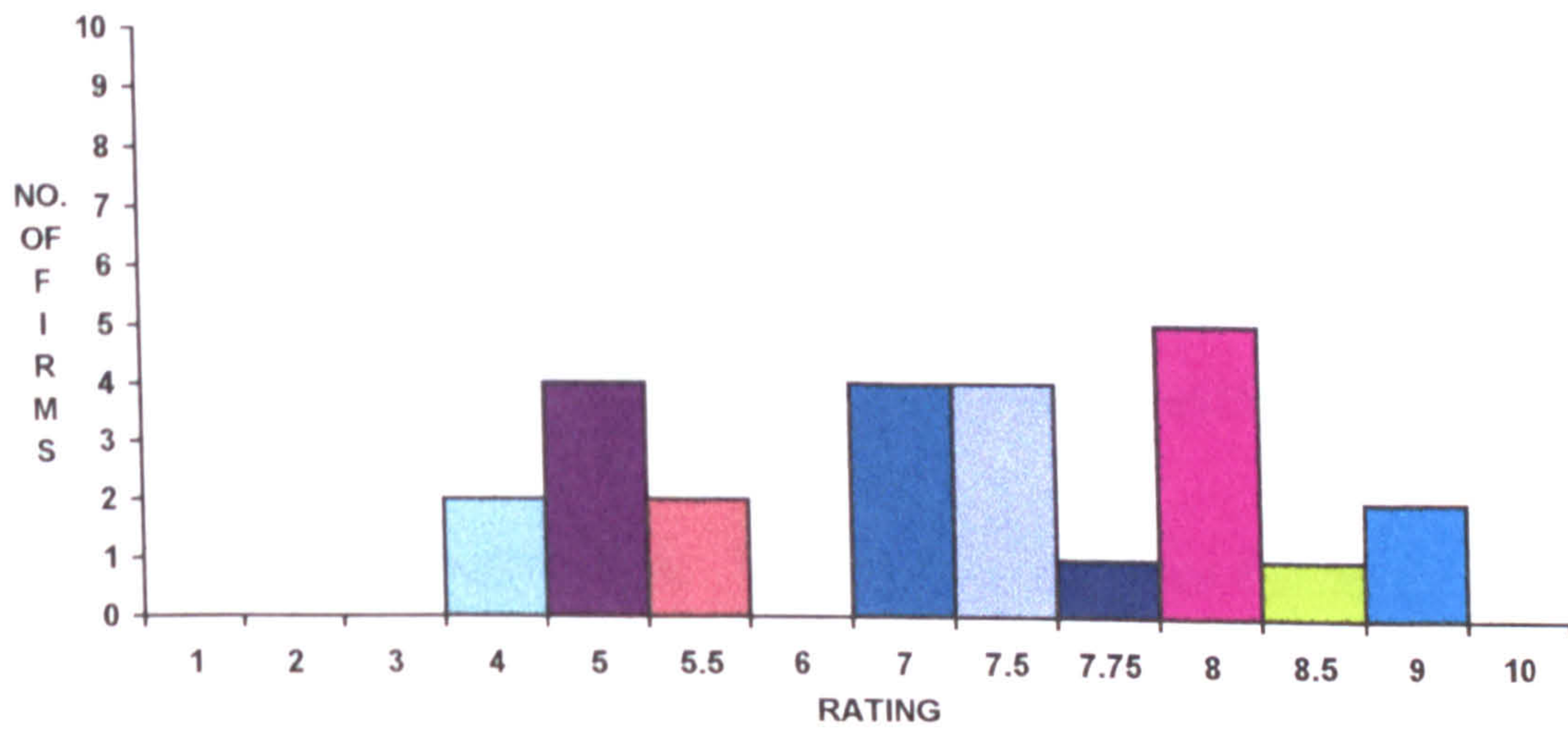
Testing Assumptions and Mental Models *



n = 23; median score is 7; * two did not respond

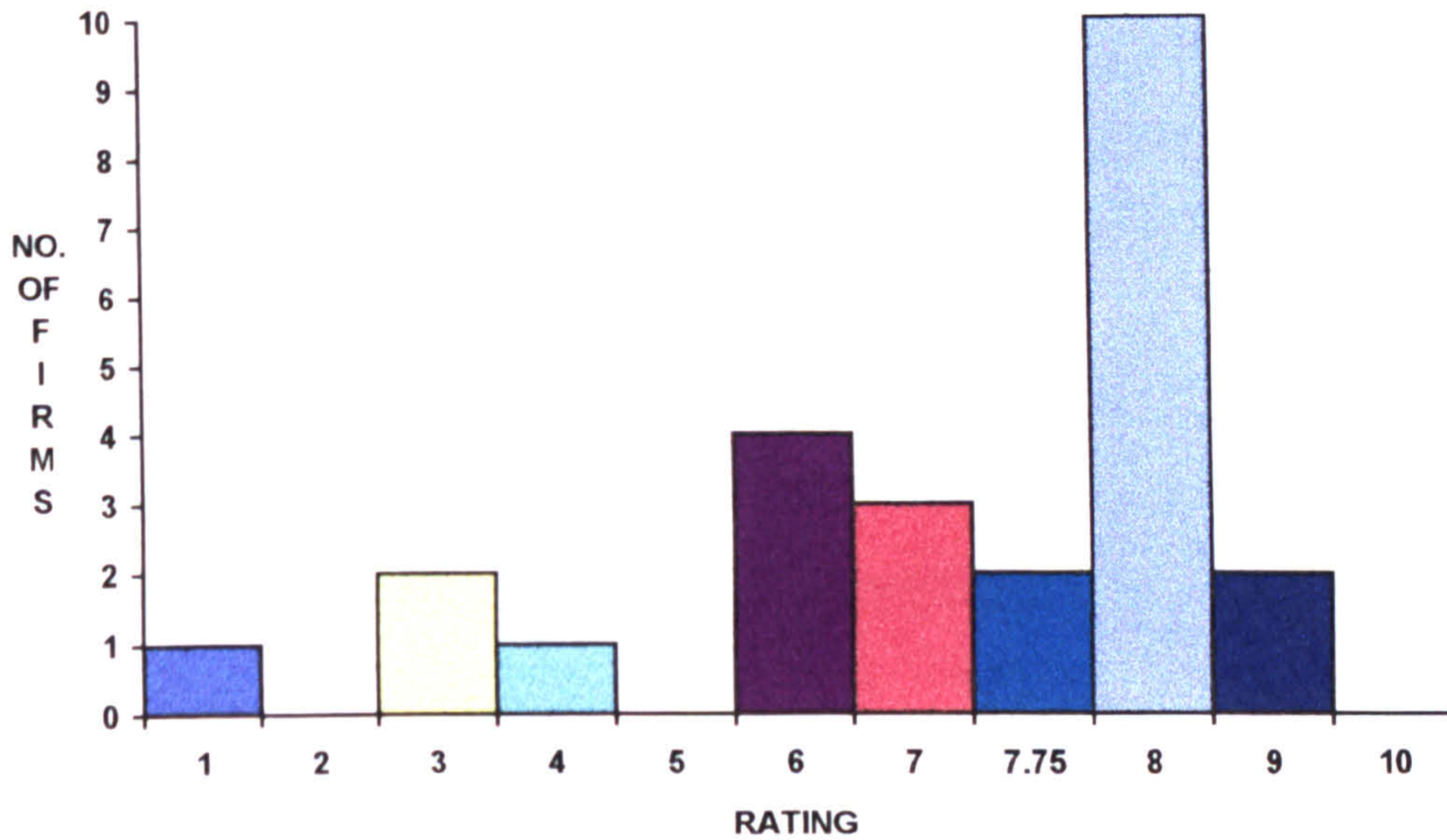
Marketing Consulting Sector

Decoding



n = 25; median score is 7.5

Testing Assumptions and Mental Models



n = 25; median score is 7.75

The following are comments which describe the scores:

“When I’m open I’m very good at it. But I’m human and I like to think I’m right, so I might not always check out my assumptions because I feel I get them right”.

“Sometimes I test after events force me. If someone tells me I’ve screwed something up, I survey the field of play imagining the future”.

“I like to think we spend more time listening than talking. When we do talk it’s to do it positively, about things we understand to be the right objective”.

“I like to think things through. So I test things to ensure I’m going the right way”.

“I just know you’ve got to look at different angles. I don’t sit down and think I’m going to test out. It’s seat of pants”.

4.2.1 Small business owners' perceptions of their openness and energy for changing their views

Both sectors hold equally positive views that openness and energy for changing their views on the way they perceive business is a necessary and valuable orientation. Twenty out of twenty-five owner-managers in each sector subscribe to this view.

Both sectors describe their views in a similar fashion, as an example, one remarked:

“I’m keen to change my views on how I see the work we do. I think about it quite a lot. I try not to hold fixed views but I must have some”.

And both sectors add a cautionary tone that too much flexibility has dysfunctional consequences for the direction of the firm and can lead to motivational problems for staff.

4.3 Summary

No sector differences are apparent for Decoding and Testing Mental Models and Assumptions.

First, it was found that no evidence exists to support a sector difference in Q22 that Decoding is an innate skill. Second, no significant sector difference was evidenced from the t tests in the Decoding and Testing self-rating scores: the median scores for Decoding are: Management Sector 7; Marketing Sector 7.5; and for Testing: Management Sector 7; Marketing Sector 7.75. Third, both sectors held similar views that openness and energy for changing views on the way they perceive business was a necessary and valuable predisposition to have.

5. Analysis of Strategy Planning for the Fifty Firms by Sector

This section explores whether differences exist between the two sectors.

5.1 What the analysis of the structured questionnaire revealed

The small business owners responses to the structured questionnaire have been set out in table form below. The sample size is 25 firms per sector.

Table 42:**Q2 from the structured questionnaire**

“You can plan your business in detail”.

	Management Sector	Marketing Sector
Agree	3	2
Neutral	5	13
Disagree	17	10

Table 43:**Q3 from the structured questionnaire**

“The past is the best guide to the future when setting your plans”.

	Management Sector	Marketing Sector
Agree		10
Neutral	8	8
Disagree	17	7

Table 44:**Q13 from the structured questionnaire**

“To be successful you must have a view on how to achieve your goal”.

	Management Sector	Marketing Sector
Agree	20	16
Neutral	3	9
Disagree	2	

Table 45:**Q18 from the structured questionnaire**

“Planning is a waste of time in today’s small business environment”.

	Management Sector	Marketing Sector
Agree	2	2
Neutral	4	8
Disagree	19	15

Table 46: Struct Q20 from the structured questionnaire

“Plans should emerge over time rather than be set in concrete”.

	Management Sector	Marketing Sector
Agree	19	22
Neutral	5	2
Disagree	1	1

Table 47: Q21 from the structured questionnaire

“The key to planning is in seeing patterns emerge”.

	Management Sector	Marketing Sector
Agree	23	20
Neutral	2	4
Disagree	1	1

5.2 Depicting the structured questions in table form

In order to more readily access the interview data, it has been set out in the following manner in table 48.

Table 48: Structured questionnaire - Strategy Planning Data

Question No.	Type of Question	Management Sector			Marketing Sector		
		Agree	Neutral	Disagree	Agree	Neutral	Disagree
2	You can plan your business in detail	3	5	17	2	13	10
3	Past is best guide to future when setting your plans		8	17	10	8	7
13	To be successful you must have a view on how to achieve your goal	20	3	2	16	9	
18	Planning is a waste of time	2	4	19	2	8	15
20	Plans should emerge over time rather than be set in concrete	19	5	1	22	2	1
21	Key to planning is in seeing patterns emerge	23	2		20	4	1

The results of the structured questionnaire do not indicate sector differences¹, with the exception of Q3, table 43, (Chi sq. = 14.166, $p = < .001$), "The past is the best guide to the future when setting your plans?".

This finding is further supported by the owner-managers' qualitative interviews, see table 49, (Chi sq = 8.445, $p = < .02$).

¹

Table 42 Q2	Chi sq = 5.4148	$p = > .05$
Table 44 Q13	Chi sq = 5.4	$p = > .05$
Table 45 Q18	Chi sq = 1.67	$p = > .05$
Table 46 Q20	Chi sq = 1.505	$p = > .05$
Table 47 Q21	Chi sq = 1.5758	$p = > .05$

Table 49: The past is the best guide to the future when setting your plans

	Management Sector	Marketing Sector
Use the past	2	11
Do not use the past	21	13
Partly use the past	2	1

Statements highlighting this difference were:

Management Consulting Sector

“Plans driven by financial constraints. Luck plays quite a lot in sense of one or two bits of bad luck, for example, Rumbelows was coming on stream in two months’ time - cost us £25K - then we got a major client two weeks later and they made 30,000 redundant”.

“Based upon competency, what market will bear”.

“What I feel like”.

“I don’t remember what it was for last year. I plan around product”.

“No, we don’t develop plans from past - we don’t give ourselves boundaries. We just say we will earn as much as we can”.

“On an end goal of £5 million: what we perceive to be market conditions at the time”.

Marketing Consulting Sector

“It’s historical, we are learning from lessons we experienced, i.e. we’ve not been consistent in our performance, we’ve tried to over-achieve history has dictated that we become more realistic”.

“Some can be done that way, i.e. can we get bigger client. Other ways we use are that just as something didn’t work last year doesn’t mean we shouldn’t try it again”.

“Based on resources and the licensing team - they wouldn’t be able to handle anything more unless they expanded”.

“It has to be to some degree based upon my experience, what has happened. I like to think it’s historically based for that”.

“Yes, I develop plans based upon the past. We analyse our portfolio based upon profit/time with client and decide where we should put our focus”.

Why the Management Sector perceive planning based upon the past as a larger constraint than the Marketing Sector cannot be accounted for by sector. It will be examined later in the following chapters to establish whether size or gender have an influence upon it.

Overall, the conclusion drawn from the questionnaire data is that both sectors are in favour of planning as a tool to be used in an emerging fashion rather than in a highly structured manner which attempts to lay out the route for the business to rigidly follow. They believe they must be in a position to respond quickly to changes in order to remain viable. Typical comments were:

Management Consulting Sector

“Broadly. If they don’t make sense anymore we don’t in small business you feel less ownership so let’s scrap it”.

“Not very, the recession moved our 3 year strategy back a few years”.

“The goal doesn’t change, but the plans do”.

“It’s a horrifying thought *(to slavishly follow plans, author’s comment)*.

You learn it’s always a feast or a famine”.

Marketing Consulting Sector

“I don’t “. *(follow plans slavishly, author’s comment)*

“No, No, No, No, No, No, No”. *(separate owner-managers, author’s comment)*

“Very loosely”.

“We are guided by them. As the old saying goes ‘for the obedience of fools and guidance of wise men’ “.

Further, although there is a large degree of neutrality in the responses, 54% believe planning cannot be done in detail Q2.

An explanation is provided by those owner-managers who perceive themselves as having undertaken some planning process and set down plans and those who have not. The former lends itself to linking planning and detail together; the latter does not. However, the difference cannot be accounted for by sector and will be examined further in the following chapters to establish if it is influenced by size and gender. Typical examples of the former were:

“We have an annual planning cycle and try to pin down for year our targets and cost base on month and quarter by quarter base”.

“We are in the process of redefining our strategy. It’s a broad goal but nature of how we get to this goal has certainly changed”.

“We have a 12 months Business Plan - targets, turnover, accounts, gross profit, development of existing and new staff, equipment. All tied in with the projected turnover and gross profit and staffing and new premises”.

“We have annual business plans for two Divisions, includes Marketing, Finance”.

“Sales Plans”.

The latter; the notion a business cannot be planned in detail, is exemplified by the following comments:

“Don’t plan”.

“It’s quite erratic still”.

“We don’t have a structured plan; we have a mission statement and set of values that we work to”.

“A plan would get in the way of our work to be open to what is coming to us. If we started laying down too strict a plan we can’t respond to environment. We just keep working and the plan emerges”.

“You don’t need a mission statement but you must have a view”.

“We have some goals and put plans together from time to time”.

“I’d set a financial target at year start and then let nature take it’s course we have no plan”.

5.3. What the qualitative interviews revealed by Sector

This section will address the owner-managers' responses to the question: "What effect do you believe Strategy Planning has on your commercial success?". (See table 50)

Table 50: Effect Strategy Planning has on commercial success

	Management Sector		Marketing Sector	
Important more than unimportant effect	20	80%	18	72%
Unimportant more than important effect	5	20%	7	28%

No sector difference is apparent for the effect Strategy Planning has on commercial success [Chi sq. = 0.4383; $p = > .05$]. Comments typifying both viewpoints were:

Management Consulting Sector - Important more than unimportant effect

"It's a determinant. A sense of anticipating where the world's going and be there before it arrives. And being perceived as doing that".

"It's helpful".

"We put plans in place; a number of small plans (hardware and software, etc.) and we plan that out".

"It's fundamental to our success".

Marketing Consulting Sector - Important more than unimportant effect

"If you haven't written it down where you are going [sic] and what you are actually doing. My strategy is to do that as well as I can and become more successful at it".

"It's difficult to say because we've never operated without one".

Both Sectors - Unimportant more than important effect

"Don't know, plan is so loose".

"Not a lot really".

"We don't have one, so it doesn't have much effect at all".

"None".

However, this does not mean because the sectors perceive Strategy Planning as important that they have plans or that it is influential in their businesses as is evidenced by the responses to Qs 2 and 3 in the qualitative interviews (Section 6 - Strategy) - see tables 51 and 52.

Table 51: Q2: “What thought-out plans do you have in place for the business?”

Sector	Very Clear Plans	No Plans/Limited Plans
Management Consulting	8	17
Marketing Consulting	2	23

A sector difference exists: Chi sq = 4.5; p = < .05.

Management Consulting

Remarks exemplifying this difference were:

Management Consulting Sector - Clear plans

“I have a reasonably well thought-out plan to build ‘outcome’ product”.

“I plan one year ahead; they are at the level of keeping the status-quo; keeping a certain measure of work coming in”.

Management Consulting Sector - No plans/limited plans

“All gone to the wall. Two things will happen over next 3/6 months. First, I will extend my network into the pharmaceutical field; second, I will pump the network less hard but more selectively”.

“We don’t have a structured tactical plan”.

Marketing Consulting Sector - Clear plans

“My plan is to have one project/month with Attribution Analysis”.

(owner-manager’s newly licensed product, author’s comment)

“We have 1 year plan and corporate plan which will take us over the next 2/3 years”.

Marketing Consulting Sector - No plans/limited plans

“None, I want to maintain my technical excellence; be at technical frontiers”.

“None”.

“We are not good at strategy. We have no plans”.

“I know how much business we need to generate; know our overheads”.

“I maintain a dynamic plan. I have a financial plan which provides

This difference is accounted for by sector, nonetheless it will be explored in the following chapters for any size or gender influence.

must allow for the twists and turns”.

Further, Q3 from the same section in the qualitative interviews, see table 52, shows that Strategy Planning has only a loose influence, at best, for these firms.

working well”.

Table 52: Q3: “What part does a planned strategy play in your business?”

Sector	Acts as Guide/ Loose Influence	None
Management Consulting	8	17
Marketing Consulting	14	11

“I don't have a 5 year plan. I have an end goal which I try to meet

No sector difference exists: Chi sq = 2.9218; $p = > .05$.

“I don't have a strategy”.

Comments typical of the sectors were:

Management Consulting Sector - Acts as a guide/loose influence

“About 20% - it should be about 60%. The 80% should be market analysis, development, stages of structure. It's an intuitive hotchpotch of what I want to do; it's not thought-out”.

“Quite a lot. There is a strategic direction in terms of product and kind of work I'd like to do”.

Management Consulting Sector - None

“I'm not aware of one”.

“As I haven't really had one and been relatively successful I could have been more successful in a different way if I had had a strategy; I wouldn't say more successful”.

“None. It would get in the way. We just keep working and the plan emerges”.

Marketing Consulting Sector - Acts as a guide/loose influence

“If you have a planned strategy you go out and make it happen”.

“I maintain a dynamic plan. I have a financial plan which projects forward in a 3 month moving average of the past”.

“It has a 40% role. In as much as you must plan the road but you must allow for the twists and turns”.

“The strategy of looking after clients is hard to know. We don’t tend to lose clients to competitors even on price then I guess it must be working well”.

“Not at all, we use as a guide to update our current thinking rather than things which determine a sequence of activities we follow throughout the year”.

Marketing Consulting Sector - None

“It’s largely in my head”.

“I don’t have a 5 year plan. I have an end goal which is by the time I’m 40 I’ll have made myself redundant to scale my involvement”.

“I don’t have a strategy”.

The explanation underpinning the responses to the part played by Strategy Planning is due to the owner-managers perceiving planning to be undertaken in an emerging fashion where at best it is a guide and will be jettisoned if the situation dictates it is necessary.

Strategy Planning is not a real consideration with these owner-managers and, interestingly, no mention was made of product innovation. By default these findings support Joyce & Woods (1996) argument that amongst other things strategic planning “..... speeds up service/product innovations which are important for higher rates of return”. In other words, it helps firms to focus their creativity on what, and when, new products are needed from the business.

5.3 What the range of Strategy Planning self-rating scores revealed

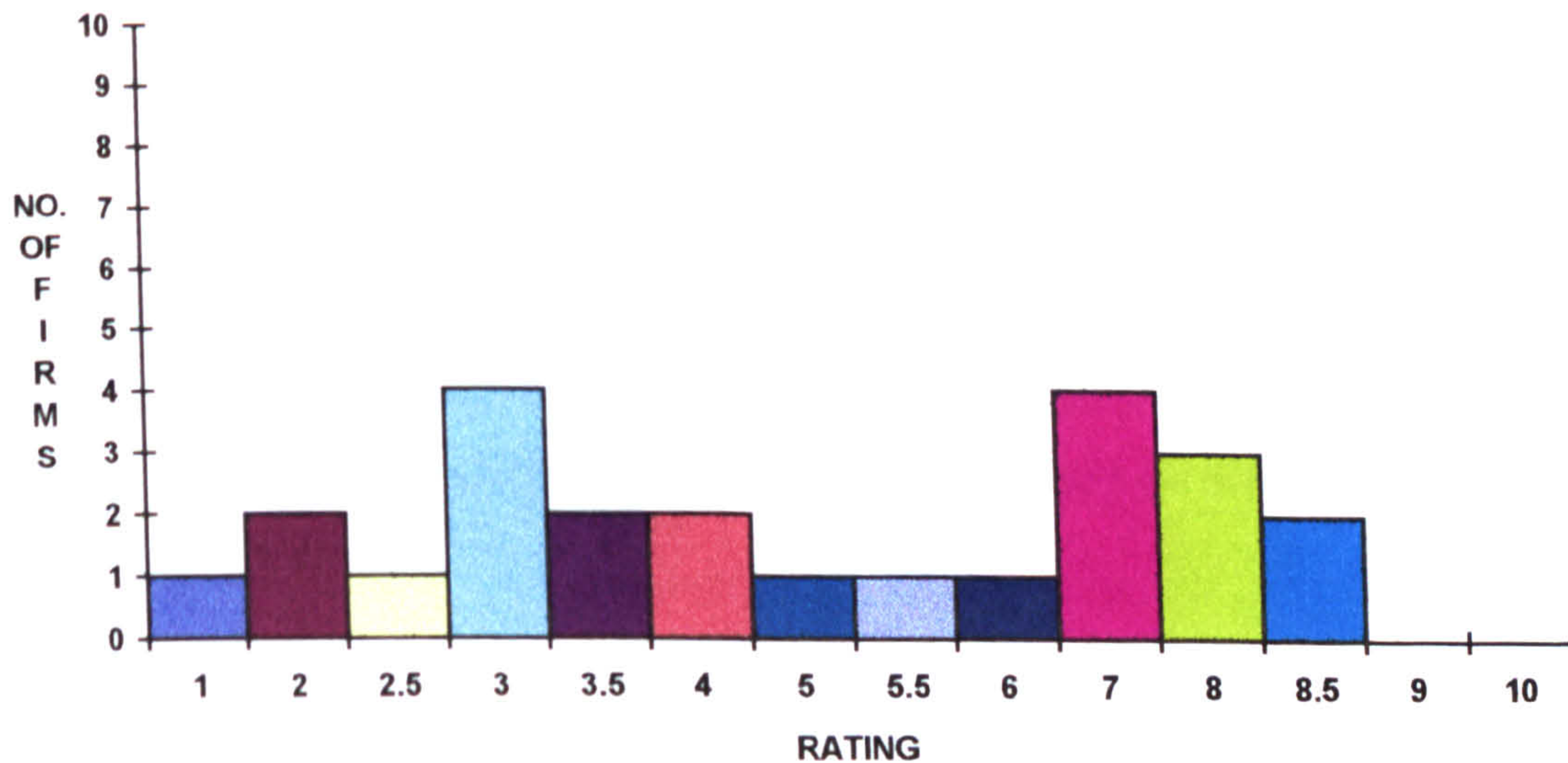
This sub-section begins with a review of the scores to the question:

“How well do you feel you plan on a scale of 1 (poorly);
10 (excellently)?”

the following ratings appear in table 53. Median scores for the Management Sector are 4.5; for the Marketing Sector are 5.5; and a t test was significant:

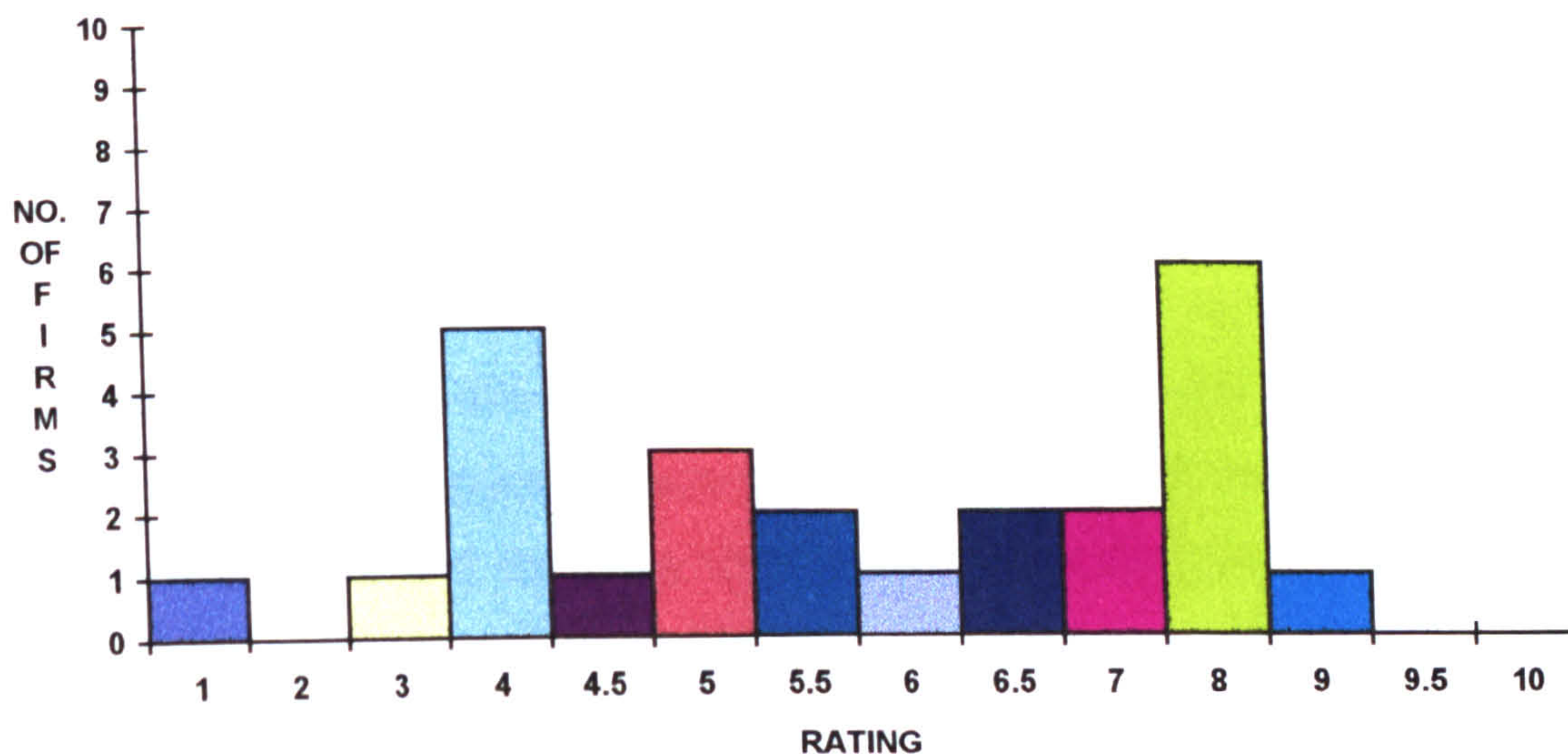
$t = 3.8496$; $df = 47$; $p = < .05$ (for one and two-tailed tests)

Table 53: Self-ratings on their effectiveness at Strategy Planning
Management Consulting Sector *



n = 24; median score is 4.5; * one did not respond

Marketing Consulting Sector



n = 25; median score is 5.5

Although a sector difference has prevailed in this strategy planning section both sets of median scores are low and reasons for this difference cannot be accounted for by sector. This will be examined in the following chapters to establish whether size or gender are influential.

5.4 Summary

A difference was apparent in Q3 from the structured questionnaire that 'the past is the best guide to the future when setting your plans'. This was reinforced in the qualitative interviews. But the difference cannot be accounted for by sector.

The high level of neutrality found in the responses to the question 'you can plan your business in detail' can be explained by linking it to those who did engage in planning and those who eschewed the activity. The former would lend itself to applying detail, the latter would not. However, a sector analysis revealed no difference and it will be examined further for any size or gender influence.

Both sectors favour planning as a tool to be applied in an emerging fashion; and believe it has an important effect on commercial success; but it must leave them free to take opportunities wherever they arise and be used as a loose guide or not at all.

A sector difference was evidenced concerning whether owner-managers had thought-out plans in place. The Management Sector have plans in place more than the Marketing Sector. Further, the median scores for strategy planning self-rating effectiveness show an opposite situation. The Marketing Sector are higher than the Management Sector and the t test identifies a sector difference. However, these differences cannot be accounted for by sector and will be examined in later chapters to establish whether size or gender have an influence.

6. Conclusion

This chapter has been concerned with analysing the possible differences, according to sector, which were identified in the previous chapter. This was felt to be a sensible approach to the research in order to prevent the data reaching a level of complexity that would preclude comprehension; whilst still maintaining the integrity of the study. This was based upon the decision taken that to analyse the data of one sector, gender, and size; and repeat the process for the second sector; and then attempt to make a comparison between sectors would overwhelm comprehension with unnecessary complexity.

The three areas searched for signals : (1) discussion or contact with the client; (2) reading the relevant literature; and (3) networking; identified sector differences in areas (2) and (3). In area 2 - reading the relevant literature - the difference was defined as cultural: the Management Sector read over a wider literature area than the Marketing Sector which gathers information mainly through the trade journals. However, the reason why this is so cannot be accounted for by sector and will be examined further under size and gender.

In area 3 - networking - two differences were identified. First, networking is used by Management as an added resource for delivering service to the client base. Second, it

is perceived by them as an important feature in their commercial success. The first is instrumental in explaining the second. This also explains the difference between the responses to the qualitative interviews and the structured questionnaire. In the former networking is used extensively to gather information by both sectors; in the latter it is Management which perceives networking more as a key factor in commercial success.

A sector difference was highlighted with signal frequency. The Management Sector receive regular and ongoing signals, whereas the Marketing Sector receive more of the intermittent type. The level of self-rating scanning effectiveness explains the difference. A larger number of Marketing owner-managers (12) self-rate their effectiveness at 5 or under, compared with Management owner-managers (8). However, it cannot be solely accounted for by sector and it will be explored further under size and gender.

Finally, a sector difference was evidenced in the areas of 'managing growth' and 'getting new business': Management are concerned with the former; whilst Marketing are concerned with the latter. The type of signals received by the sectors and the owner-managers' self-rating effectiveness scores explains the difference.

A difference which was apparent in Q3 from the structured questionnaire that 'the past is the best guide to the future when setting your plans' was reinforced in the qualitative interviews. But it cannot be accounted for solely by sector.

The degree of neutrality found in the responses to the question 'you can plan your business in detail' is explained by connecting it to those owner-managers who planned and those who eschewed the activity. The former lends itself to the application of detail, the latter does not. However, a sector analysis difference was not apparent and it will be examined further for any size or gender influence.

A sector difference was evidenced concerning whether owner-managers had thought-out plans in place. The Management Sector engage in this more than the Marketing Sector. The median and t test scores for strategy planning self-rating effectiveness

highlight the opposite effect. The Marketing Sector have a higher score than the Management Sector. Once again, these differences cannot be accounted for by sector and will be examined in later chapters to establish whether size or gender have an influence.

CHAPTER 7:

REVIEW OF THE RESEARCH DATA FOR THE 50 COMPANIES BY SIZE

1. Introduction

The aim of this chapter is to analyse for firm size the differences first identified in Chapter 5 and reviewed for sector difference in Chapter 6. Each firm size will be analysed and the findings discussed.

2. Importance small business owners attach to Scanning

Three firm sizes (10-25 employees; 2-9 employees; and micro (self-employed)) were reviewed in the research. This section will explain why each considers scanning to be an important primary activity, albeit conducted in an informal manner. It will also show that it is concentrated upon the client base; and that owner-managers are 'client-watchers', a term used for observing and seeking feedback from the client base. Further, it will reveal a size difference between the micro firm size and the others: although micro firms hold a positive attitude towards the scanning activity they do not convert it into an adequate behavioural response: this influences their ability to acquire new business - their biggest problem.

2.1 What the analysis of the structured questionnaire revealed

The owner-managers were asked to respond to a number of questions on scanning; which are depicted in table 54. No size difference was found.

TABLE 54: RESPONSES TO THE STRUCTURED QUESTIONNAIRE - SCANNING - BY SIZE

Question Number	Question	AGREE					NEUTRAL					DISAGREE				
		10-25	%	2-9	%	Micro	10-25	%	2-9	%	Micro	10-25	%	2-9	%	Micro
1	It is a key business skill to be able to read the environment	10	100	19	95	20	100	1	5	-	-	-	-	-	-	-
24	It is necessary to continually look outwards to pick up clues about what is happening to your business	10	100	17	85	18	90	3	15	2	10	-	-	-	-	-
28	Most small business owners can run successful businesses without spending time scanning their business environment	-	-	2	10	-	-	3	15	1	5	2	20	15	75	19
6	Keeping customers is more important than getting new ones	5	50	8	40	10	50	11	55	8	40	5	50	1	5	2
8	The best small business owners ask their customers for feedback about how satisfied they are with the service and/or product they receive	10	100	19	95	18	90	1	5	2	10	-	-	-	-	-
25	Seeking fast clear feedback from your customer base is the most important way of finding out what is going on in your business environment	4	40	14	70	11	55	4	20	7	35	5	50	2	10	2

2.2 What the qualitative interviews revealed

This sub-section begins with a review of the responses to the questions:

“What effect do you believe scanning has on your commercial success”? and
“How well do you feel you scan the environment on a scale of 1 (poorly);
10 (excellently”.

These two questions are central for establishing the results from, and skills necessary for, scanning.

2.2.1 Effect scanning has on commercial success

No size difference was found for the effect Scanning has on commercial success. Almost all sizes agree that scanning plays its part in bringing about commercial success. Only two owner-managers felt its effect was small.

A difference prevails at the micro firm level. Three owner-managers did not transform their beliefs in the advantageous effect scanning has on commercial success into behaviour.

Scanning is not carried out in any formal or systematic manner. A large proportion of it is undertaken in discussions on the telephone or in face-to-face meetings with the client base. It is a process that forms part of the working day and occurs in a non-structured way.

“We don’t do it in any formal sense. We don’t have any formal mechanism for doing it”. (firm size 10-25)

“It’s an informal process. We try to do it”. (firm size 2-9)

“It’s not a conscious activity”. (firm size - micro)

“Signals are fairly frequent, especially on the client side”. (firm size 10-25)

“Talking to clients”. (firm size 2-9)

“Dialogue with clients”. (firm size - micro)

“I monitor also through my clients”. (firm size - micro)

“We talk to clients and non-clients concerning their knowledge about us”.
(firm size 10-25)

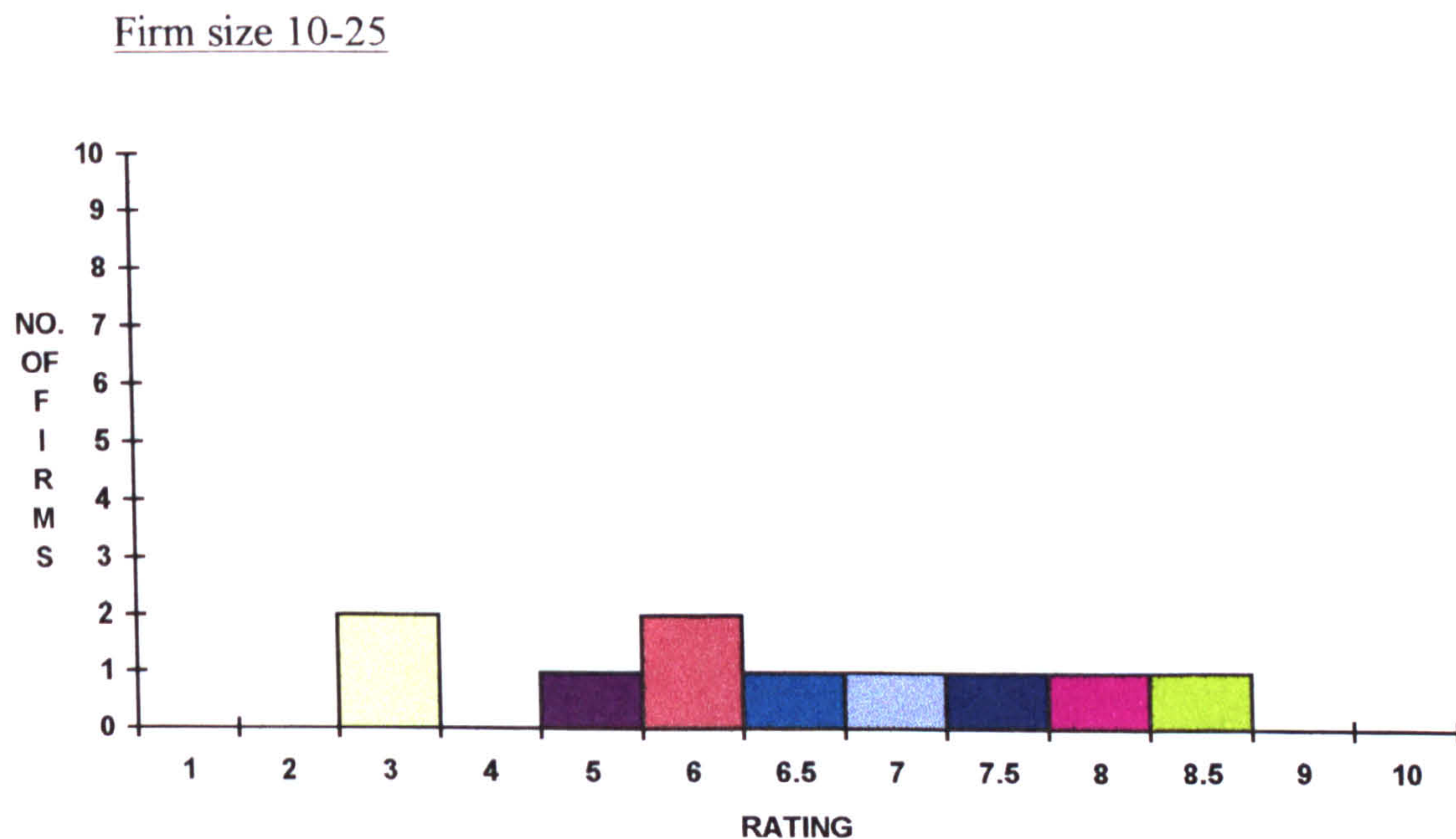
“In conversation with people, with clients”. (firm size - micro)

Interestingly, one micro firm perceived it as not having “much mileage”. The owner has one major client and believes he is well ensconced there. However, he talked later on in his interview about wanting to challenge himself in other industries to see if he could survive outside his “cash cow”.

2.2.2 Scanning self-rating effectiveness

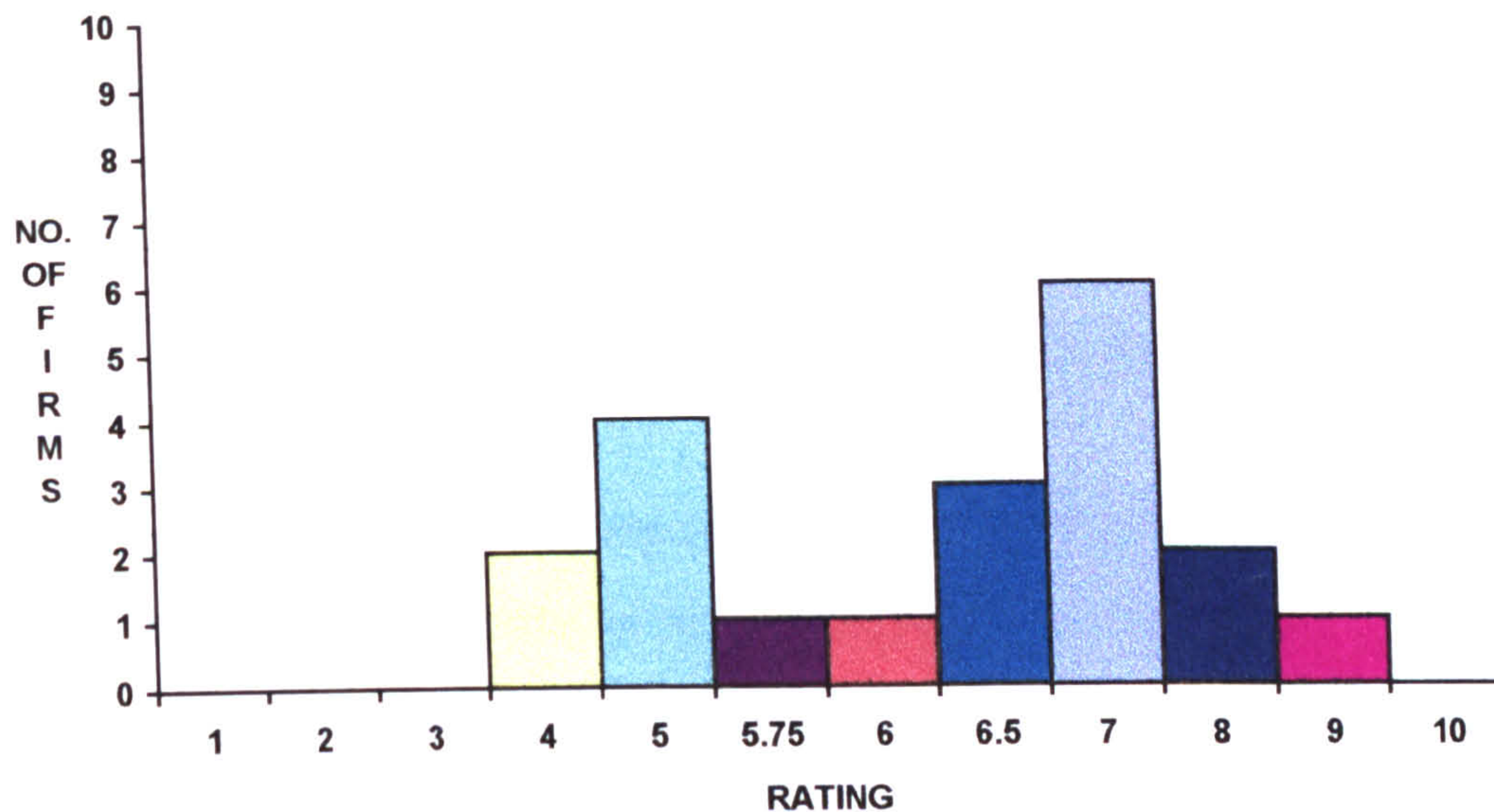
The self-ratings for the second question concerning: “How well do you feel you scan the environment on a scale of 1 (poorly); 10 (excellently)?” are provided in table 55. A discussion of the reasons for their ratings follows.

Table 55: Owner managers’ self-ratings effectiveness at Scanning



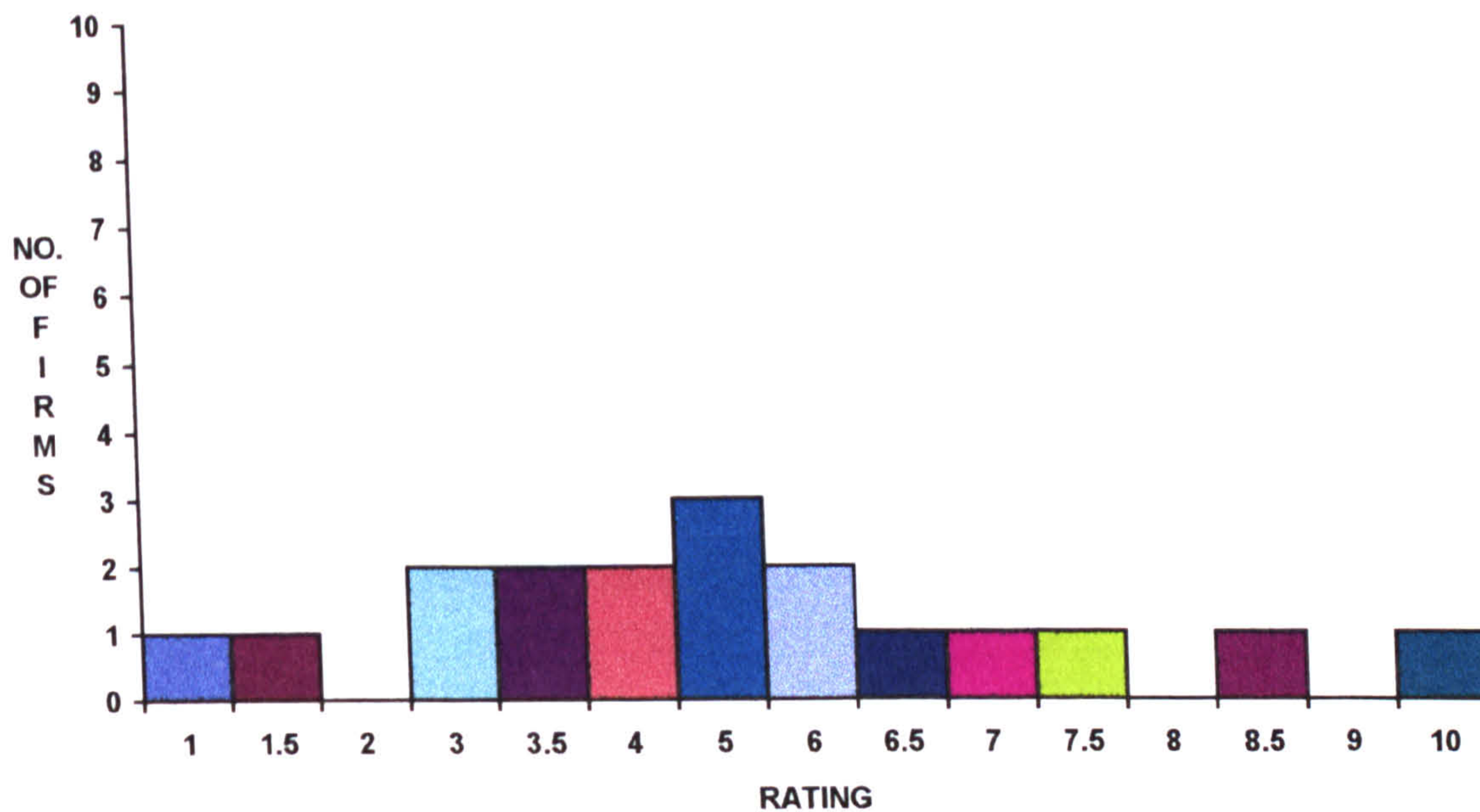
n = 10; median score is 6.25

Firm size 2-9



n = 20; median score is 6.5

Firm size - micro *



n = 18; median score is 5; * two did not respond

A size difference at the micro level is indicated with both t tests and median scores.

- Firm size 10-25 has a median score of 6.25
- Firm size 2-9 has a median score of 6.5
- Firm size micro has a median score of 5

t test: firm size 10-25/2-9

t = 0.43; df = 28; p = > .05 (for one and two-tailed tests)

firm size 10-25/micro

t = 1.1986; df = 26; p = >.05 (for one and two-tailed tests)

firm size 2-9/micro

t = 2.1306; df = 36; p = < .05 (for one and two-tailed tests)

The reasons prompting the scores can be classified under three broad headings:

- (1) lack of time or resources to do more of it or do it better;
- (2) lack of any systematic procedure;
- (3) lack of skill or drive to match behaviour to their intellectual acceptance of scanning. Essentially a micro firm problem issue.

For instance, one owner-manager recounted:

“Where we fall down is in not systematically devoting resources to environmental scanning and actively seeking out information which doesn’t come our way (rating 6: 10-25 size).

Another, who was rated 6.5 (10-25 size) felt her lack of scanning was internally poor. She felt she lacked any structured procedure.

A project-based owner-manager believed that “the real way to get real feedback is to talk to real people and there’s a finite limit to who you can talk to”. (rating 7: firm size 10-25).

Whilst one male small business owner (firm size 10-25: rating 8.5) felt he could always do better. Even though he had numerous ways of scanning such as daily news cuttings put on his desk; presentations at conferences; survey research to discover the firm’s visibility level and reputation vis-à-vis competitors.

In the 2-9 firm size, similar reasons prevail, for instance:

“It’s the time and effort it takes to do any of it. If we weren’t working

ourselves it would be easier. It's squeezed into every minute". (rating 6)

"Our energy level can't sustain good scanning. Just keeping afloat; many problems, client difficulties; projects on 6 months' hold. Takes 6-12 months to get clients. Leaves you with no energy left". (rating 4)

"We should do it more systematically we have a good grip of what's going on". (rating 8)

Two others, who expect a decrease in their revenue and profits, felt they could do better: they respectively commented:

"I just keep my eyes and ears open. I'm passive". (rating 7)

and

"I'm not hard-nosed enough in looking for opportunities. I'm casual in my approach not aggressive". (rating 6.5)

At the micro level the scores were qualified in several ways: from the high degree of energy some put into it; to comparison with others; to it being a random activity; to being poor at it, and so on. It seemed to move from a high level of commitment down to disinclination. Some remarks exemplify this:

"I put a lot into it; use 1/3 of my time effectively for it". (rating 10)

"My range is limited". (rating 4)

"I don't have time to dedicate myself to it. I should do more but I don't have the facility". (rating 7)

"I'm below average. I should do more. I don't keep up as well as I should". (rating 3.5)

The reason for the lower micro median score (5.0) compared with the other firm sizes (6.25 and 6.5 respectively) is put down to the owner-managers not matching their behaviour to their positive attitudes on scanning which is grounded in either a lack of skill; comments typical of this were:

"In terms of getting contacts and presenting myself to them as available for work it's 1-2".

"I essentially don't scan actively. I'm conscious this is how organisations

grow out of touch. I'm conscious I'm not meeting the young Turks of 35 who are going to shape the next few years".

"It's difficult to define who the stakeholders are", or lack of energy and drive to bridge their intellectual acceptance of scanning with a commitment to perform it readily and often - for instance:

"It's very much what comes along rather than being proactive".

"It's random; sometimes I don't do it at all, sometimes I do it well".

"I don't formalise it, i.e. today I'm scanning, tomorrow I'm not. I do it fairly poorly".

In summary, the findings for the three firm sizes show that all associate the main results of the scanning process with client interactions. They use other means but the client is their main source. The reasons for their ratings can be put in three categories - lack of time or resource; lack of any system; and lack of skill.

2.3 Small business owners' perception of the clarity of the signals they receive

No size difference exists (see table 56). Chi sq = 2.5; p = > .05.

Table 56: Clarity of signals received

Firm size	Confused	%	Clear	%
10-25	8	80	2	20
2-9	12*	60	8	40
micro	10	50	10	50

(see table 57) * this includes 1 termed weak

2.4 Where they search for signals

Size differences exist for the three main areas searched for signals, see tables 57, 58 and 59.

However, seven firms are not searching for signals. Their reasons for not doing this:

Table 57: Area searched for signals: Discussion/Contact with client

Search area	Firm size					
	10-25	%	2-9	%	micro	%
Discussion/Contact with client	10	100	20	100	13	65
Not a search area	-	-	-	-	7	35

Size difference is: Chi sq. = 12.209*; p = < .05.

* Indicator only as several expected frequencies fall under 5.

Table 58: Area searched for signals: Reading relevant literature

Search area	Firm size					
	10-25	%	2-9	%	micro	%
Reading relevant literature, etc.	10	100	16	80	12	60
Not a search area	-	-	4	20	8	40

Size difference is: Chi sq. = 6.0086; p = < .05

Table 59: Area searched for signals: Networks

Search area	Firm size					
	10-25	%	2-9	%	micro	%
Networks	6	60	11	55	18	90
Not a search area	4	40	9	45	2	10

Size difference is: Chi sq. = 6.4283; p = < .05

The focus of those who search for signals in the area of Discussion/Contact with client (see table 57) is to build trusting and valued relationships: and to watch the client closely for signals and clues as to how to respond effectively. A typical comment was:

“We try to build relationships over time and try to get to know what they are thinking and see more people”.

However, seven micro owner-managers did not mention the client as the means for gaining signals. Their main focus was their networks. Two comments exemplify this:

“I prefer networking and looking for creative opportunities, to hear about opportunities and make them”.

“My principal method is networking”.

This is explained by the fact that micro firms biggest problem is ‘getting new business’ (see table 61). This concentrates their efforts to gain information and business through networking channels. Other micro firms use both client contact and networking.

The second area searched for signals - reading the relevant literature - (see table 58), highlighted that 40% of the micro firms did not mention reading as a useful method or eschewed the idea completely. Comments typical of the latter were:

“Journals are irrelevant”.

“I don’t read professional journals, it’s a total waste of time”.

Of the 60% who do read to gain information some confine themselves frequently to their trade magazines, for instance:

“I only read one journal: the MRS magazine only”.

Four more mentioned this point.

The third area - networking - is used extensively by the micro firms to gain information - (see table 59). Comments typical of their involvement in networking were:

“Networking with other people - asking them questions - and I feel I get regular and useful feedback in those areas”.

“Networking is primarily people. I’m superb at networking, that’s my great skill in bringing people together from disparate groups”.

“I set up, with one other person, a small active network of 9 people to meet monthly”.

“Network two sides; supply side and client side”.

“I use a large network. Most of my work comes through them. I get clients by people who know you rather than adverts in Yellow Pages”.

“I have two support groups: 5 local to me. We meet every 6 weeks on

Saturdays to discuss how we are getting on”.

“I have a group of associates, 3 or 4 people”.

The reason for the extensive use of networking has been explained previously under table 57.

The size difference apparent in table 59 is not supported by Q19 of the structured questionnaire “Networking is an important factor in commercial success”.

8 of the 10 agreed from firm size 10-25

16 of the 20 agreed from firm size 2-9

19 of the 20 agreed from firm size - micro.

This cannot be accounted for by size and will be examined in the next chapter to establish whether gender has influence upon it.

2.5 Frequency of signals

What can be drawn from table 60 is that most perceive the frequency of signals as constant and ubiquitous. Some comments highlight the expansive tone they used to describe this ever-present pressure:

“It’s not like a radio broadcast - it’s not intermittent. What I see is wave on wave of information that’s coming from many different quarters”.

“We scan by being members of everything that moves”.

Of interest is that the bulk of the signals come from the client base which is to be expected as client focus and service satisfaction are instrumental to a small business owner’s survival, peace of mind, and success.

The only difference for size in percentage terms, is the prominence of intermittent signals. Interestingly, six owner-managers who receive this type of signal self-rated their scanning effectiveness low, i.e. they scored 1, 3, 3.5, 3.5, 4 and 5. It appears that Scanning effectiveness could be linked to the frequency of signals received: if signals are intermittent it may be due to ineffective scanning.

Table 60: Signal frequency *

Description of frequency	Firm size					
	10-25	%	2-9	%	micro	%
Regular and ongoing	4	40	17	85	12	60
Most client interactions	6	60	19	95		
Intermittent			4	20	7	35

* one did not respond

No size difference was evident**; Chi sq. = 4.7768 p = > .05.

** Indicator only as several expected frequencies fall under 5.

2.6 The biggest problem scanning has identified for small business owners

Three problems confront owner-managers 'managing growth'; 'getting new business'; and 'internal crises/issues'. A size difference is apparent between the larger firm size and the other two sizes concerning 'managing growth' and 'acquiring new business' (see table 61). Chi sq. = 11.40; p = < .05.

Table 61: Three biggest problems for small business owners

Problem	Firm size					
	10-25	%	2-9	%	micro	%
Managing growth - recruit right people - upgrade technology - finance - find new premises	8	80	11	55	4	20
Getting new business			7	35	10	50
Internal crises/issues	4	40	1	5	-	-

Those managing the problem of 'growth' offered quite varied reasons, for instance: one was concentrated on moving his business away from reliance on ad hoc contracts, which represented 30% of turnover, to continuous, long-term client relationships. Another was concerned with forecasting and with finding a product or service that will help them meet their goals for the following year. Yet another was in the throes of

developing a European side to the business. And a fellow Director was shortly to go out to Spain to cut some deals to give them a visible presence in Spain, France and Austria. Typical comments were:

“How to manage our own growth Question is how can we step increase without increasing costs”.

“One of the issues is when do you rock the boat when you are doing well and that’s been the subject of considerable discussion between the Board and myself”.

“We have to make a step up. We can see business is there to be got. We can’t carry on selling our own services. We have to make a break and grow it”.

“Lack of money. We have world beating products; potential is enormous. We don’t have resources to promote we don’t have enough money. Worldwide potential is \$400m, currently it’s \$15m”.

In Chapter 6, sub-section 2.5, it was explained that self-rating effectiveness and signal frequency were the causes of the sector difference. Part of this holds for size also. Table 55 shows the number of self-rating effectiveness scores increase at 5 or below as the firm size decreases, for example:

Firm size 10-25	indicates 3 firms @ 5 or below
Firm size 2-9	indicates 6 firms @ 5 or below
Firm size micro	indicates 11 firms @ 5 or below

However, it does not hold for signal frequency as differences were not evidenced, (see table 60).

But an exploration of the qualitative interview data around the problem of ‘getting new business’ identifies product type and lack of prospecting as issues.

Often those who delivered products which could be classified loosely as topical, e.g. Organisation Development, Management Development, Sales Training, Marketing and Advertising campaigns, and so on, found business easier to get than those who

delivered more specialised, less topical products, such as Accountancy Training for Management, NVQ, Equal Opportunity or Environmental Study Interventions; Motivational programmes, Statistical management, specialised qualitative Marketing Research; or Direct Marketing.

These were predominantly found in the micro firms, and as one owner-manager remarked:

“It’s a war mentality. People don’t have time for me”.

Others were simply seeing their revenues and profits decreasing or remaining static and were contemplating the necessity of discarding the attitude of waiting for business to come to them; for instance one owner-manager remarked that his:

“network is breaking down of people you developed in the past it will become a weak source. It could be the downfall really. Over time the contacts become weaker”.

Some had made this step and had begun prospecting on a continuous basis and were expecting their revenues and profits to rise.

Those confronted with the problem of ‘internal crises/issues’ saw it primarily as ‘people problems’ and ‘managing change’. They were grappling with a multiplicity of staff issues ranging from finding ways to successfully employ entrepreneurial types without them waiting to take their business away, to providing leadership for others.

As one put it:

“We have a key function which is run by someone, who no matter how hard I try I can’t get him to recognise what the objectives of the place are and we are wrestling with how to get around it”.

Summary

A number of differences can be attributed to size.

First, scanning self-rating effectiveness at the micro level was lower than the other firms sizes. The cause was explained as lack of skill or commitment; that is, their

intellectual acceptance of the importance of scanning is not mirrored by their behaviour.

Second, where firms search for signals identified a difference mainly with the micro firm size; and was explained by the problem they face of getting new business and by the number of self-rating effectiveness scores below 5, and type of product delivered to the client base.

3. Decoding Signals and Testing Mental Models & Assumptions

In Chapter 5, Q22 of the structured questionnaire, “Interpreting the environment is a skill you are born with” indicated ambivalence in the responses. In Chapter 6 when it was analysed for sector no difference was apparent. A similar situation prevails when analysed for size: no difference is apparent.

Chi sq = 2.0763; $p = > .05$ (see table 62). However, it can be seen that more than half the sample (58%) believe it is a skill which can be learned.

Table 62: Q22 from the structured questionnaire

“Interpreting the environment is a skill you are born with?”

	Firm size					
	10-25	%	2-9	%	micro	%
Agree			3	15	2	10
Neutral	3	30	7	35	6	30
Disagree	7	70	10	50	12	60

3.1 Small business owners’ self-ratings on their effectiveness at interpreting signals and testing assumptions and mental models

No size difference is apparent for Decoding and Testing: t tests were not significant, $p = > .05$ (one and two-tailed tests) for all firm sizes.

3.2 Small business owners’ perceptions of their openness for changing their views

Chi sq = 2.1875; $p = > .05$ (see table 63). No size difference exists - Chi sq = 0; $p = > .05$.

Table 63: Openness by size

Type of Response	Firm size					
	10-25	%	2-9	%	micro	%
Positive view	9	90	14	70	17	85
Mixed or negative view	1	10	6	30	3	15

Summary

No size differences were apparent. Owner-managers consider Decoding and Testing to be a valued method for learning and a core skill which can affect commercial success. What differentiates those rating themselves 5 and below on Decoding and Testing is not their understanding of the tools but their lack of skill or inclination to use them. t tests were not significant. No formal systems are used for Decoding and Testing, except in a very few cases.

A paradox existed with firms which perceived Decoding to be a valuable activity but either undertook it at a low level, as indicated by their ratings, and/or ignored the results emanating from the process. Testing was found to be another paradox for the same groups of firms. In this case firms in the low rating range undertook it only when forced to by events. It was not felt to be a core pursuit.

With regard to openness and energy for changing Mental Models and Assumptions, no size difference existed. Those who considered they adopted a high level of openness (80% of owner-managers, see table 63) perceived it as another learning tool. However, they believed that openness had to be tempered by judgement to constrain the negative results of being too flexible or inflexible. Excessive flexibility could lead to confusion and inertia; whilst too much inflexibility to missed opportunities and acting only when forced to by events.

4. Strategy Planning

4.1 Responses to the structured questionnaire

No size differences were apparent within the structured questionnaire. It appears that all small business owners think of planning as a process which allows modification

to take place against changing situations; and not as some fixed rungs on a ladder they must step on to reach the top.

4.2. What the qualitative interviews revealed

No size difference is apparent from the responses in the qualitative interviews to the question “What effect does Strategy Planning have on your commercial success” - Chi sq. = 3.6955; p = > .05 (see table 64).

Table 64: Effect Strategy Planning has on Commercial Success

		Unimportant more than important effect	Important more than unimportant effect
Firm size 10-25	n = 10		10 = 100%
Firm size 2-9	n = 20	5 = 25%	15 = 75%
Micro	n = 20	7 = 35%	13 = 65%

Firm size 10-25

Of the ten small business owners in this classification (see table 64) five believe strategy planning plays a valuable part in their commercial success; the other five are less convinced of its central influence on commercial success. Typical comments which describe those who perceive it plays a valued part are:

“Our commercial success is a test of our strategy planning process”.

“It’s our guiding light, one measurement of our managerial effectiveness”.

“You have to be clear where you are going. You need priorities as resources are scarce”.

“Our Strategic Intent is to be seen as leading edge”.

“Enormous. It’s the quality of interpretive thinking and your ability to align with it and add value to the customer”.

Supporting this belief are various thought-out plans; generally covering a 1-1.5 year period. Usually their strategic planning philosophy comprised two parts. A thought through financial and product development plan and a more loose, emerging plan which allowed for opportunities to be grasped.

Typical of their inclination to develop new product lines were:

“Having a philosophy to develop new business streams outside existing business units”.

“Continuous product development”.

“Developing new areas of expertise”.

“Our strategy dictates how we go about developing creative ideas and new product areas”.

Interestingly, these new products were what Storey (1994) refers to as “..... more mundane forms of innovation, such as adding new product which is new to the firm’s product range, but which is well known in the market-place itself”.

Whilst those owner-managers who are less convinced about its central value couched their remarks in expressions such as:

“about 40% effect; you must plan the road but you must allow for twists and turns you’re a fool if you stick rigidly to a plan”.

“Difficult to say. I could give you a copy of our last 2 years Corporate Strategy. We failed on two counts - didn’t hit £2m nor achieve levels of profit; but we had a 3 year strategy for all sorts of things for Personnel, Finance, etc. We set up all these milestones and found we could not do it. So we moved away and set up sorts of goals and we’ll see how we weave our way to that”.

“It’s ad hoc. We had a formal plan. Generally they don’t work and if they don’t work they demotivate. Have broad goals, don’t think in terms of next year”.

“If we were a larger organisation we would probably find we’d drive people round the bend because a lot of our work has to be reactive to project situations”.

Several believe it is useful for others; but do not undertake it themselves due to the reactive manner in which they run their firms. Some remarks were:

“I think it’s vital for majority of businesses. But off-strategy ventures should

be allowed. We looked at each other at Christmas and said what do we want to do with the business. But we haven't done anything about it at all". "Enormous impact. It can't have a great effect on us because of the way we work. But for organisations with products, namely the computer industry; if they don't have a strategy they are lost".

As is evident, these small business owners do not feel strong commitment to their plans; experience has shown that they should not be hidebound by them:

"5 year plan didn't work; spent too much time updating it. Too many variables outside my control".

"My interpretation of strategy is a thought-out direction that we put in place; but it is continuously iterative. My biggest detest of strategy is when they become inflexible and this belief that if you put down a plan you can't change it. Biggest fear is it becomes a bible".

"The recession moved our 3 year strategy back a few years".

Planning represents the setting of broad goals for the business and the formulation of specific plans for delivering a project or piece of work to the client.

Firm size 2-9

25% of the small business owners do not link strategy planning to commercial success: either they say that they "don't have one" or "you have to stay loose and respond if you want to help an organisation" or that "strategy comes about unconsciously"; and two believe that it inhibits commercial success; commenting thus:

"Planning is a hindrance - dogmatic - achieving strategy for the sake of achieving. You should set goals. But just to stick a stake in the ground and say that's where we want to be in two months and go for it regardless would be a mistake".

"A constraint - it can detract from identifying good opportunities".

"You can't plan for changes at rate it's happening. It's now about coping with ambiguity".

Others commented:

“Plans emerge as we work. Dilemma; do I go with what I’m hearing or go with what I decided 6/12 months ago. Then you realise there’s no point in having a plan”.

“You can’t set a blue print down in precise terms. Any particular objective may have to be jettisoned if something more attractive comes along”.

“I’ve found over 6 years self-employed that where I have put detailed plans in place something else happens or it becomes meaningless. So putting a plan down on 1 January about what I’m doing on 1 November is meaningless; so I don’t waste my time”.

The 75% of the owner-managers who perceive strategy planning as ‘an important more than an unimportant’ factor in their businesses typically described their views as:

“It’s fundamental to our success; the strategy being developed without the focus that gives us, means we wouldn’t be as successful as we are”.

“In a small company people need view of where you are taking the company in broad terms and market sectors. It’s important that strategy is in place for other staff to feel motivated towards making strategy work. Strategy leads to motivation - can’t run around like a headless chicken”.

“Profound effect if good. Concentrates the mind on those matters you have dispassionately sat back and looked at and throughout the course of the business year when your mind is constantly being absorbed by other areas”.

Nonetheless, they all agreed that they would abort their plans if unforeseen opportunities came along or the situation changed. All agreed they would not be hidebound by their plans. A response typical of this view was:

“Anyone who sticks rigidly to a plan is a fool”.

What is in evidence is that all small business owners have, in some form or another, a revenue plan. All are aware of what revenue target is required to stay in business for at least the next six months; and a mental outline of how they can achieve it.

Firm size - micro

35% of the small business owners do not have a strategy nor believe it influences their commercial success. Typical comments were:

“Don’t have one”.

“If I had one I might do better”.

“It limits my growth”.

“Fixed strategy doesn’t appeal to me. You find yourself locked into it; pursue it blindly; can’t see wood for trees”.

“I don’t have one, but I’m successful”.

“I pay more attention to the person I want to become and lifestyle I want rather than targets in the normal business sense”.

This contrasts with the 65% who do believe it has ‘an important more than an unimportant’ effect on their growth. Their comments in favour were:

“Very important; otherwise you’d be like a little sailing boat tossed around by the waves”.

“It’s the beginning; where it all starts”.

“Has some. Helpfulness, not a god”.

“Plays a part. But best strategy will not help a business that doesn’t have a good product. It’s a servant not a master”.

“Not brilliant - it’s anxiety that says I must be doing more of this”.

Only one of the two small business owners involved himself in planning worthy of the name. He used a detailed set of plans. For instance, he had a business plan, updated yearly, which contained a comprehensive Marketing Strategy, Strategic Objective, Enabling Actions and Critical Success Factors; the latter for both the marketplace and his own capability. This immersion in such deep planning was not a reaction to his flirtation with near bankruptcy a few years earlier: he remarked that he was always a planner.

None of the other interviewees would countenance such involvement. Some are actually closer to a laissez-faire attitude than anything else. One said:

Joyce & “It’s very much muddling along”; others said

They re “Business runs of its own volition now. I have no influence on the market”.

New mo “Don’t plan for one year. All I worry about is next month”.

“It’s completely opportunistic”.

An essential difference between the two paradigms is that the new modernist view of strategic planning

The overriding perception drawn from the qualitative interviews was of owner-managers who intellectually subscribe to the belief that Strategy Planning influences their commercial success. However, it would be wrong to assume they had plans in place (see table 65).

plans emerge.

TABLE 65: Q2: “What thought-out plans do you have in place for the business?”

Firm Size	Very Clear	None or Limited
10-25	6 = 60%	4 = 40%
2-9	4 = 20%	16 = 80%
micro	-	20 = 100%

A size difference is apparent - Chi sq = 15; p = <.001.

Comments typical of the firm size 10-25 owner-managers who had clear thought-out plans in place were:

Firm size 10-25

“We have an annual planning cycle”.

“Overall I’m wanting to grow mystery shopping in Europe”.

“From a strategic point of view it’s looking at always how to build the retail relations”.

This fits with Joyce & Woods (1996) view of the new modernist in strategic planning:

“Strategic moves in the new modernist paradigm are essentially guided by foresight but are experimental and opportunistic, enabling a strategy to emerge”.

Joyce & Woods (1996) identify three paradigms of strategic planning (see Figure 3). They refer to them as the Modernist approach, the Postmodernist approach and the New modernist approach. Each has its own dimensions and character.

An essential difference between the three paradigms is the attitudinal difference each has towards planning.

Firm size 2-9 and micro

The Modernist approach maintains it is a key feature, the Postmodernist maintains programmed planning is not feasible, whilst the New modernist approach believes plans emerge.

Figure 3: Joyce & Woods Three Paradigms¹

Dimensions	Modernist	Postmodernist	New modernist
Top management role	Decision-making elite	Back successful initiatives by lower level managers	Responsible for intellectual leadership
Successful change	Programmable	Discoverable	Based on foresight and experiment
Expectations about those at lower levels	To be committed to proposals and to implement strategic plan	To show diversity, difference and spontaneity (empowerment)	To have their own agendas - but agendas which can be included
Attitude to planning	Planning is core activity	Proactive planning is impossible	Planning is emergent
Attitude to chance events	Need to plan for flexibility	Require chaotic action in response	Chance events can be opportunities
Organizational requirements	Operational management to be shaped by strategy	Anti-hierarchy culture - support for informality	Organizational readiness - commitment and competence - which have to be developed

¹ Taken from: Essential Strategic Management - by Joyce, P. & Woods, A. (1996), p. 49.

On the other hand, the responses of the two other firm sizes (2-9 and micro) do not fit any of Joyce & Woods (1996) three planning paradigms. They could best be described as laissez-faire.

Comments typical of the firm sizes 2-9 and micro were:

Firm size 2-9 and micro

“None, I only do planning when there is a reason to do it”.

“None. In my head is a plan which I can’t get down on paper. Most plans would be a waste of time because cash flow rules”.

“Not enough. We have practical constraints which guide us, like the mortgage on the property”.

“We don’t have a plan about what we are going to do about the business”.

“We don’t have a vision that says in 5 years time we want to be in 6 different markets, or 5 times bigger”.

“Plans are 6 months in advance; driven by financial constraints”.

“Not very sort of thought-out”.

“Loose, opportunistic”.

“None”. *(seven respondents, author’s comment)*

“I have no planned objective to increase turnover by x% etc., within such a period of time. At the moment I’m fully occupied”.

“I don’t plan for 1 year, maybe for next month. That’s all I worry about”.

It seems from the comments of the three firm sizes that there is a cut-off point within firm size 2-9 when the need for thought-out plans begins to accelerate forward; and when laissez-faire gives way to new modernism. Exemplified by remarks as:

“We have very well thought-out plans for our core publications”.

“It’s a thought-out direction”.

Notwithstanding this difference it was found that firms with very clear or limited thought-out plans in place only used them as guides (see table 66).

TABLE 66: Q3: “What part does a planned strategy play in your business?”

Firm Size	Acts as Guide/ Loose Influence	None
10-25	6	4
2-9	8	12
micro	8	12

No size difference is apparent: Chi sq. = 1.1531; p = > .05.

Examples typical of the firm sizes using their plans as guides were:

Firm size 10-25

“Sets some priorities to guide us”.

“Dictates how we might go about developing new ideas”.

“One measurement of our managerial effectiveness. Most of the time it says how good we are. It’s a good test actually”.

Firm size 2-9

“The plan is so loose that when we do generate new business we are probably so thrilled about it we forget why did we get this. We are too busy opening the champagne”.

“Quite a lot. There is a strategic direction in terms of product and kind of work I’d like to do”.

“Some part. But I like to be fluid. It’s not realistic to hone it down to say in 3 years time this is what I want the organisation to look like; you don’t know which way winds are going to blow”.

Firm size - micro

“In times of need. Normally we don’t need. If I feel we are not doing as well as we should or are taking a wrong turning I’ll do a plan”.

“No more than goal posts of targeted achievement”.

Thus these well thought-out plans are permitted to have a loose influence only on the owner-manager's business. As their questionnaires show they like plans to emerge. What follows naturally from this is that they do not feel any need to follow plans - even their extremely broad ones. As one female commented:

“That’s why I work for myself”, or as another put it:

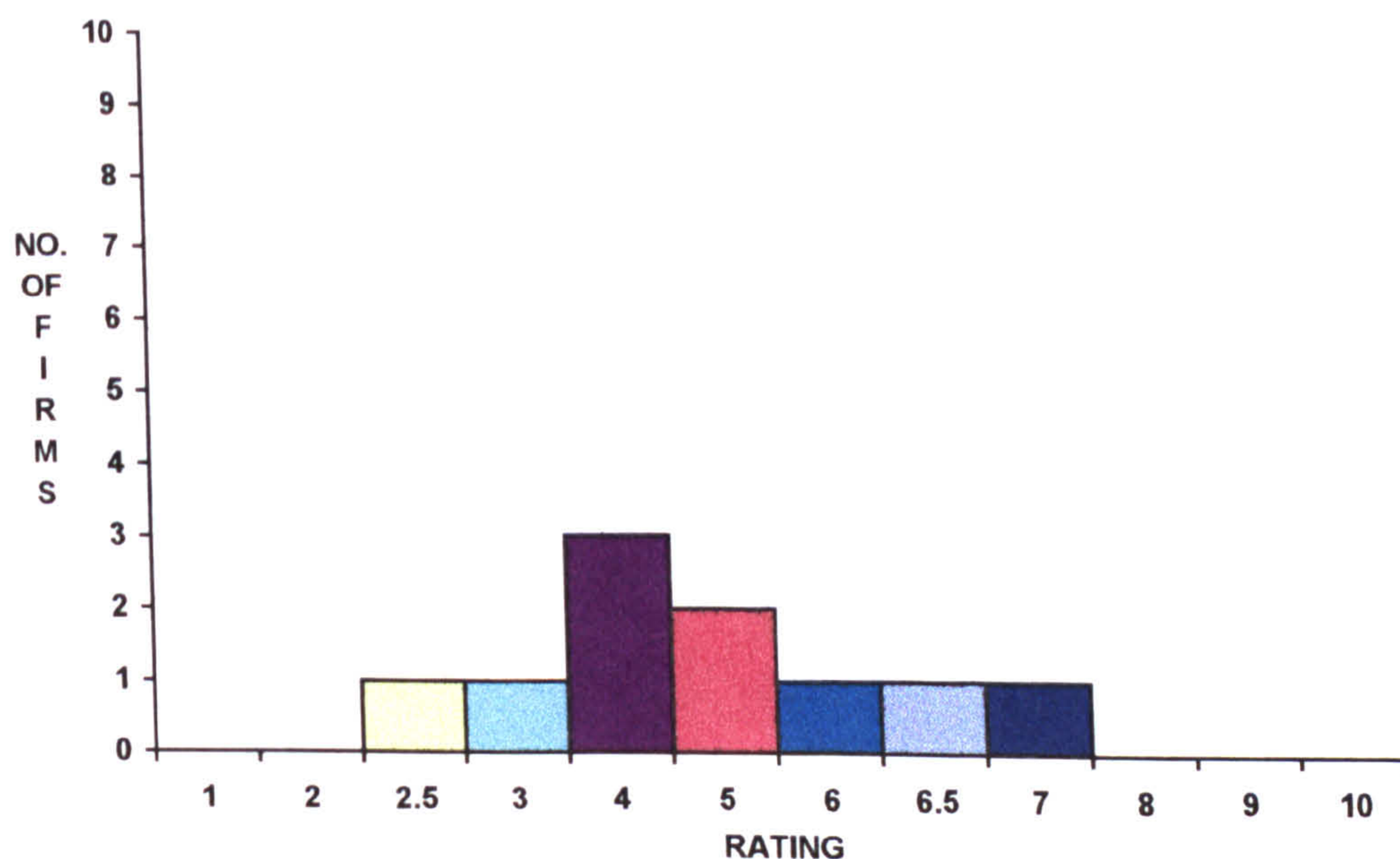
“I’ll change it if I feel it’s necessary”.

“I have an eye on the future. If I was more future oriented I would be more rigorous in pursuing key things, but I don’t want that pressure on me”.

5. Self-ratings on effectiveness at Strategy Planning

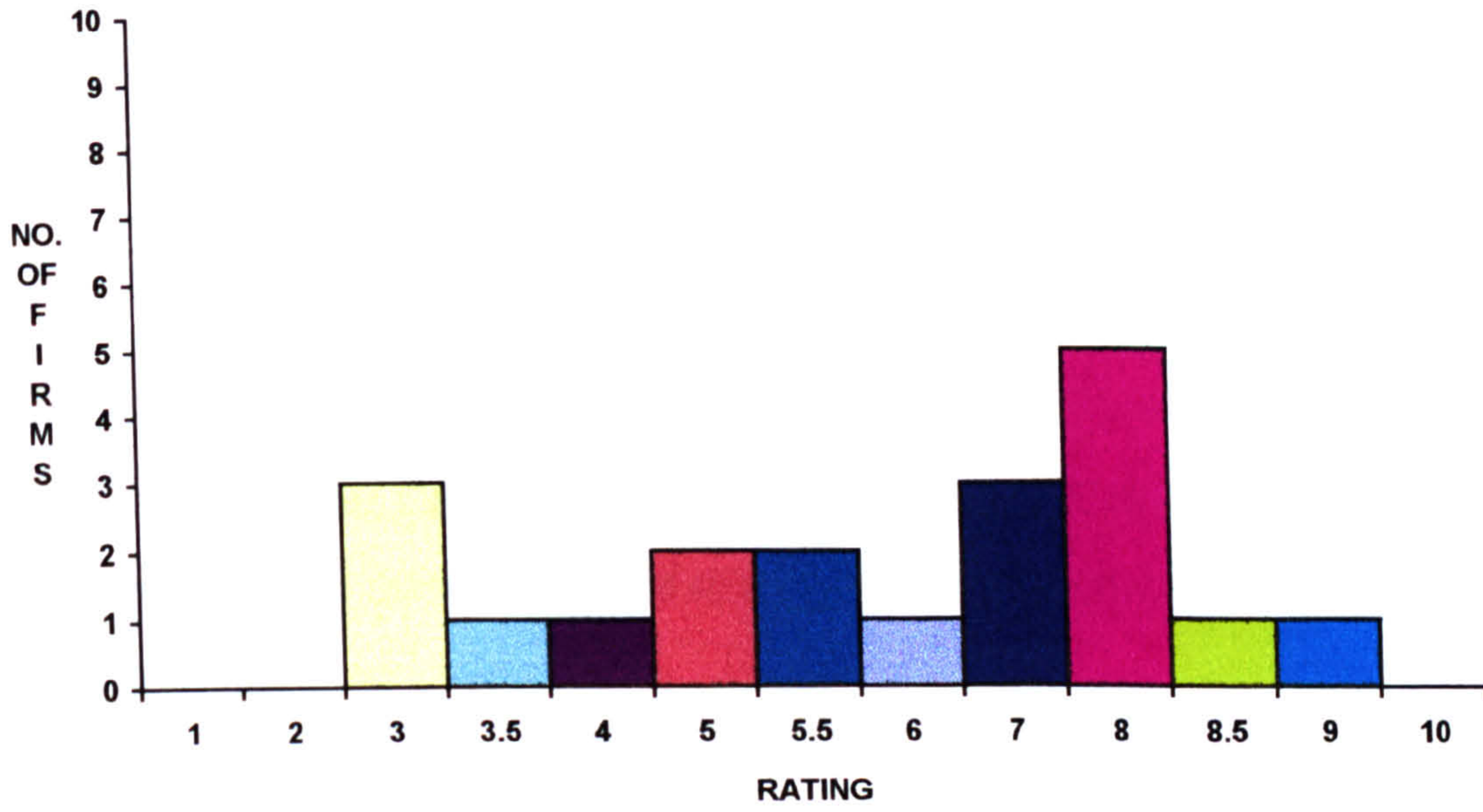
Set out in table 67 below is the owner-managers' perceptions of their personal effectiveness at planning. The median scores and t tests signify a size difference between firm size 2-9 and the others. They are differentiated from firm size 10-25 by their less severe outlook. Why this is so cannot be explained by size. Firm size 10-25 has 7 (70%) self-rated at 5 or under whereas firm size 2-9 has 7 (35%). They are differentiated from the micro firm size by their application.

Table 67: Owner managers' self-ratings effectiveness at Strategy Planning
Firm size 10-25



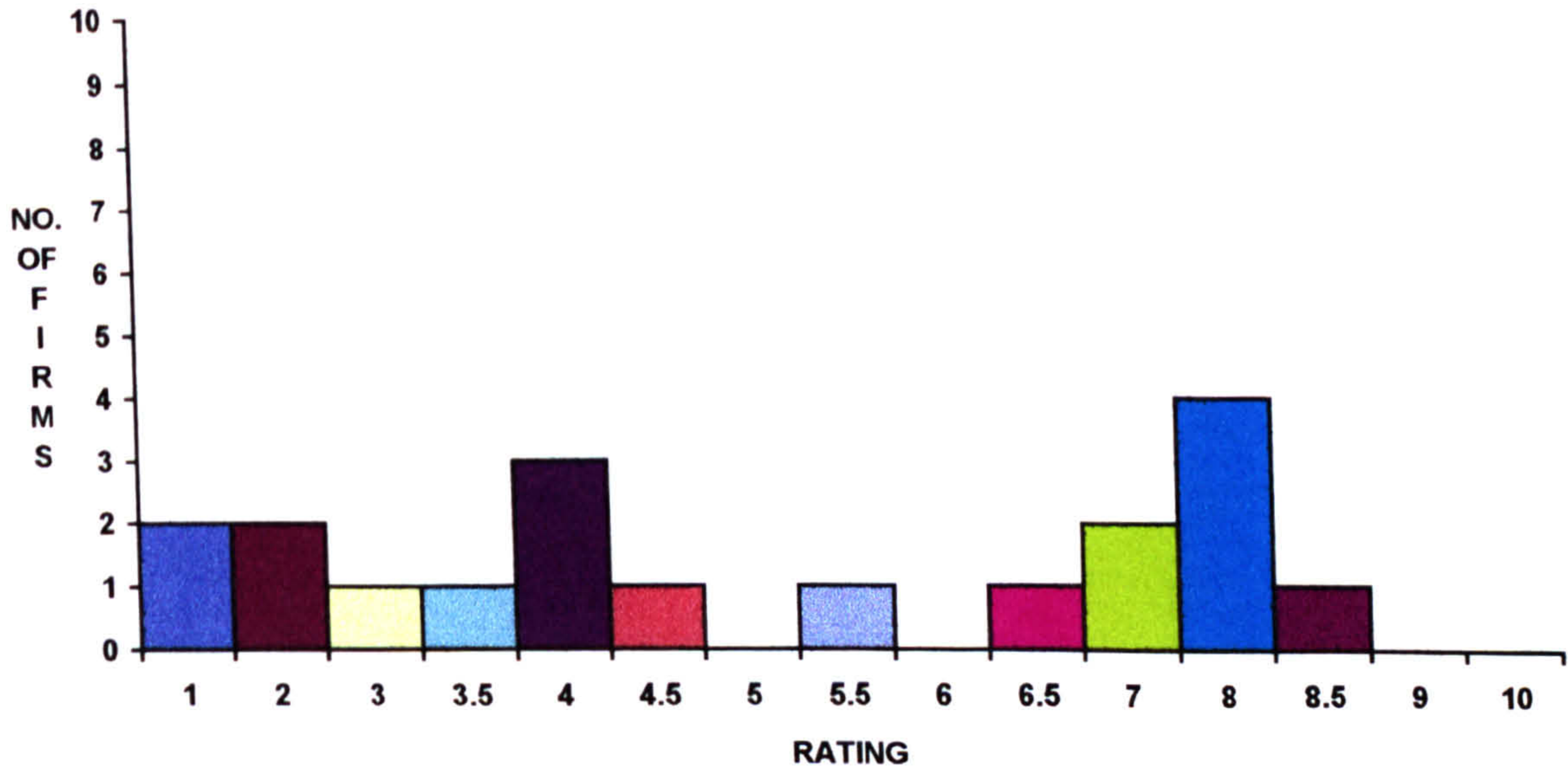
n = 10; median score is 4.5

Firm size 2-9



n = 20; median score is 6.5

Firm size: micro *



n = 19; median score is 4.5; * one did not respond

t test: firm sizes 10-25 and 2-9:

$t = 1.93905$; $df = 28$; $p = > .05$ (two-tailed test) ;

$p = < .05$ (one tailed test)

firm sizes 10-25 and micro:

$t = 0.3725$; $df = 27$; $p = > .05$ (one and two-tailed tests)

firm sizes 2-9 and micro:

$t = 2.027$; $df = 37$; $p = < .05$ (one and two-tailed tests)

Table 67 shows that firm size 10-25 had a low median score although many hold strong beliefs about the usefulness of strategy planning. They believe their application of it is weak.

And all offered similarly harsh comments:

“We haven’t cracked how to achieve growth so we aren’t that good”.

“It’s a cultural thing (in the firm) - it’s not OK to talk about future being different from the present yet”.

“Plans are evolving which we should have done 5 years ago”.

“We could put more effort in”.

“We still have scope to do a lot more interesting and innovative things and we just don’t make time to sit there and discuss it and put more effort into it: in product innovation, direction for Sales people, overall what the organisation does, what we do in as much as IT we use - all needs updating - the admin processes. We don’t do all this”.

“In terms of monitoring, thinking about the signals, thinking about our options, we do this quite well. Whether we can influence our destiny is another matter”.

They believe time and resources are an inhibitor to them undertaking more or better planning. However, the underlying sense still prevails that planning is necessary for specific contracts for the client base or for internal infrastructure issues:

“We have a number of small plans for H/w and S/w. We plan it out so we can be reactive company rationale is to be reactive to client needs, that’s it”.

For some, less certain about the value of strategy planning, broad goals and aims, usually held in the head, are their idea of longer term strategy planning. Financial plans are the only concession they make to the idea of company planning.

“I have a plan for 6 months and I don’t have a plan written on a piece of paper. I found it impossible. You have to be reactive”.

What is of interest is the notion that they plan based upon the emerging patterns they identify in the marketplace. This suggests that the previous activities of Scanning, Decoding and Testing are necessary ingredients of the planning process and, in their view, pervade the life of the plan.

Table 67 shows that firm size 2-9 has the highest median score; much above the others. Those who rated themselves above 5 felt they indulged in planning to some degree and that they were “getting better at it”; some were deliberately “spending lots of time planning about what we want to do with the business”; and several were enthusiastically energetic towards the planning process. One example was of an owner-manager who had planned into her business a relationship with a Telemarketing firm to provide an ongoing supply of prospects which, in turn, prompted her to plan her business resources.

Another was planning a ‘one-stop shop’ of complementary skills and European experience to give the market a clear image of association; and to promote it effectively in Europe. Nonetheless, all owner-managers plan at the client level.

Those who rated themselves below 5 either do not plan nor want to plan. Several within that group felt they would be effective planners if they undertook it, but felt it was not relevant for their firms and put it aside as an inappropriate activity. This is exemplified by one comment:

“In a sense the classic mistake to make with this size of business, at this stage in this market, would be to have highly structured plans based upon lots of balanced strategies the key is we are flexible we have a reserve of resources which we will use sparingly but is always there. With balance

sheets it would be a mistake because you would be looking at numbers instead of sensing what's going on I don't make 5 year plans; I make 6 month 'feels'."

However, all agree that their attitude to plans and planning has to, in the words of one respondent, "be infinitely adaptable".

Some of the micro firm size scores in table 67 should be approached with scepticism. The three high scoring respondents gave some unusual reasons for their scores, especially in the light of them having no real plans or goals. One talked about having nothing formal in terms of plans, "currently all is mental" (rating 8.5). Another suggested she "likes being fluid. It's not realistic to hone it down to say 3 years - this is what I want the organisation to look like" (rating 7). Whilst the third argued that a strategy plan plays no part in his business; he relies upon an "intuitive plan"; and his plan is to remain a sole trader and network himself (rating 8). Those who rated themselves 5 and below offered more convincing reasons, such as:

"I don't do it at all".

"Not very important for me".

"Plan needs detail, I operate loosely".

"There are 10s out there because I know some of them and I'm so far away from them - I don't do it".

"No formal way. It's very much ad hoc. I know about planning but it's not a word I could apply without laughing at my own activities".

"Fixed strategy doesn't appeal to me. You find yourself locked into it; pursue it blindly; can't see the wood for trees".

"Time inhibits me".

"I've no formal plans, don't set goals for each year - others would think it's appalling, but I have no costs to manage, overheads are minimal".

Further support for this attitude towards strategy planning comes from their remarks about a worthwhile strategy for them. Generally, they perceive it as simply a flexible guide; simply as having some end point, such as working x days a year and accepting

that it is “a waste of time to speculate about what you will do in the middle bits”. Their real concern regarding planning is being realistic in terms of the level of activity they can achieve and deliver in a year.

However, all believe planning is appropriate for delivering service to the client base. They differentiate between business and client project planning.

Finally, reading the interview transcripts and listening to the tapes gave the impression that most small business owners did not invest time nor energy in formal Strategy Planning sessions. As one remarked:

“All organisations I have worked in, I’ve never been aware of them having planned strategy; as soon as projects came in the plans were aborted”.

It is a continuous process of searching for patterns and having go. It seems this is more than being opportunistic - though many are certainly that - it smacks of some recognition that planning for them is just another expression for Scanning, Decoding and Testing.

Finally, there is agreement that detailed and careful planning should be undertaken on client projects, i.e. it is considered essential and time profitably spent on planning the work to be delivered to the client base.

As one of the partners in a larger firm remarked:

“We are reactive to project situations. We plan resources like warehousing, vehicles, computing for projects. It’s planned around work projects”.

Summary

No size difference was found in the structured questionnaire.

The data from the qualitative interviews identified a size difference. It revealed that the three firm sizes subscribe, in the main, to the view that strategy planning has a

beneficial effect on their commercial success. However, only the firm size 10-25 has clear thought-out plans in place. It seems that there is a bridge between firm sizes 2-9 and 10-25 when the idea of planning takes on a more serious mantle and moves from laissez-faire towards new modernist.

Finally, it was established that all the size firms are not loyal to their plans - all will cast them aside to grasp a business opportunity in line with their goal. They believe that plans should emerge over time and any business planning would be accomplished by letting the plans emerge rather than developing a rigorous and rigid route to some goal.

Conclusion

The 'possible differences to be tested for size' set out in the introduction of this chapter have been examined. All agree Scanning, Decoding and Testing are core skills and have a positive effect on commercial success. Strategy Planning is perceived as a tool by most owner-managers that has a beneficial effect on commercial success but is not used, by most, in practice. Those firms that do use it permit it only to function as a guide with loose influence.

Differences in Scanning, Decoding and Testing were found to be due to a lack of skill in, or commitment to, these tools, especially at the micro firm size. This suggests that useful education and training interventions by small business helping agencies could be made to help develop the expertise of owner-managers.

Similar interventions could be made with the strategy planning tool especially at the firm sizes 10-25 and 2-9 where an awareness dawns (due to size) that it is a business requirement and they require higher level skills in it.

1. Introduction

The various differences identified in the previous chapters 5, 6 and 7 are examined for gender difference in this chapter. It was found that no gender differences existed. The findings support Storey's (1994) view that gender does not play a part in small firm performance.

This chapter differs from the previous format and does not set down in detail the analysis. It was felt that sufficient detailed analysis has been provided throughout the research review and, as no gender differences were evidenced from a rigorous analysis undertaken, little was to be gained from setting it down in comprehensive form.

2. Findings

The factors examined for gender are set out below.

2.1 Scanning

This factor is considered to be a necessary and valued activity.

- The Structured Questionnaire - (Qs 6, 25 and 28) were statistically tested and no gender difference was found.
- The self-rating effectiveness scores provided no evidence of gender difference; a t test indicated a level of significance of $p = > .05$ for both a one and two-tailed hypothesis.
- Clarity of signals and signal frequency revealed no gender difference:
 - It was established that gender cannot account for the two different types of signals received, that is the dichotomy between confused and strong signals.
- Areas searched for signals evidenced no gender difference, viz:
 - (1) Discussion/contact with client (84.2% males; 91.7% females undertook this activity).
 - (2) Reading relevant literature (73.7% males; 83.3% females undertook this activity).

- (3) Networking (63% males; 91.7% females undertook this activity). Even when networking was statistically tested in other forms no gender differences became apparent.
- The biggest problem scanning has identified for owner-managers - “managing growth” and “getting new business” did not provide any gender differences.

Four remarks which are representative of the owner-managers’ views were:

“Managing growth, that is, taking on new personnel, new equipment, new premises. These are decisions not made lightly”.

“We have to make a break and use associates and grow. We are nervous about that”.

“Competition will appear on the scene because new technologies will enable a new definition of services and the centre will be faced with the critical issue of how it reinvents itself to take on board this new definition”.

“It’s getting work. It shouldn’t be cyclical but it is”.

2.2 Decoding Signals and Testing Mental Models and Assumptions

These activities were considered to be a valued part of the owner-managers’ repertoire for growth. T tests for self-rating effectiveness indicated a significance level of $p = > .05$ for both a one and two-tailed hypothesis.

- Both genders supported the notion that the interpretation of the environment is a learned skill.
- The self-rating effectiveness median scores were similar.
- Openness and energy for changing views was not gender specific:
 - 29 males out of 38 held positive views
 - 11 females out of 12 held positive views

Two responses typify their views:

“Can’t afford a fixed view in this business it’s a big adventure people are getting into”.

“I’m surrounded by people who are much younger than me and that gives me energy because they still have illusions and that’s good because it

drives me their minds are more open than mine; more receptive, less cynical. It helps me because if they weren't I wouldn't do certain things".

2.3 Strategy Planning

This sub-section shows no gender differences and supports the findings provided in previous chapters that planning is better carried out at the client level and any business planning should emerge over time (agreed by 84% males and 75% females) and be based upon observed patterns emerging in the environment (agreed by 81.5% males and 100% females). The requirement is to remain flexible and opportunistic.

It was found that strategy planning is not an activity readily undertaken by owner-managers. In fact, only 13% males and zero% females felt their business could be planned in detail.

T test for self-rating effectiveness indicated a significance level of $p = > .05$ for both a one and two-tailed hypothesis.

3. Conclusion

No gender differences were identified in the research. These findings reinforce Storey's (1994) view that:

"The overall conclusion must be that the gender of the entrepreneur is not a key influence upon subsequent business performance".

His review of fourteen sets of research identified that twelve concluded gender was not significant in performance. The findings from the other two cases cancelled each other out.

Nonetheless Hamilton et al (1992) caution us to reflect upon the manner in which gender research is carried out. They say:

"In the study of gender in small business management there is a constant danger of applying androcentric stereotyping in the construction of questionnaires, and in selecting issues of interest from a 'gender perspective' ".

In other words, questions should be 'gender neutral' and must be perceived as relevant by both genders.

CHAPTER 9: **A CULTURAL EXPLANATION OF THE
SIMILARITIES AND DIFFERENCES
IDENTIFIED IN THE RESEARCH**

1. Introduction

In Chapter 5 fifty firms from two sectors were analysed to establish what was similar and different amongst them. In subsequent chapters, the differences were taken on for further analysis by sector, size and gender.

In this manner, it was felt that the findings could be treated with confidence, as they were subjected to a wider scrutiny. Further, it was a more sensible way to approach the research model in order to contain the complexity of data so that it did not overwhelm comprehension.

In this chapter the similarities and differences identified in Chapters 5 to 8 have been reconfigured into table form, with similarities set out in table 68 and differences in table 69.

A cultural explanation using Hofstede's (1991) 6 dimensions of organisation culture is offered for all the similarities and eight of the differences. Where this is not relevant other explanations are offered such as: product specialism; and the owner-managers' perspective on reasons for being in business.

The results explain that the sectors do not have the same culture; but they do suggest they may be close.

The summary to this section provides a discussion about culture. An explanation is also provided for why more differences were not found between the sectors.

2. Explanation for the similarities identified in the research

Table 68 highlights the similarities between sectors, sizes and genders. Explanations are offered using Hofstede's (1991) 6 dimensions of organisation culture.

Table 68: Similarities identified from the Research

	Similarities		
	Sector	Gender	Size
1. Scanning - vital for commercial success	X	X	X
2. Decoding & Testing - vital for commercial success	X	X	X
3. Strategy Planning - beneficial effect on commercial success	X	X	X
<u>Scanning</u>			
4. Managing business can be undertaken without scanning environment	X	X	X
5. Keeping customers is more important than getting new ones	X	X	X
6. Fast clear feedback is needed from client base to understand environment	X	X	X
7. Scanning is focused on client base	X	X	X
8. Scanning is undertaken informally	X	X	X
9. Clarity of signals	X	X	X
<u>Decoding & Testing</u>			
10. Interpreting environment - skill born with	X	X	X
11. Is a learning tool; action prompt	X	X	X
12. Undertaken informally	X	X	X
13. Median and t test self-rating effectiveness	X	X	X
14. Openness	X	X	X
<u>Strategy Planning</u>			
15. Key to planning is seeing patterns emerge	X	X	X
16. Emergent planning is better than struc. planning	X	X	X
17. Must not be loyal to the plan	X	X	X
18. Planning is client based	X	X	X
19. Structured Qs. 2, 13, 18, 20	X	X	X
20. Part played by planned strategy	X	X	X

The means of explaining the cause of the similarities in the research findings between the two sectors is by the application of Hofstede's (1991) 6 empirically developed dimensions of organisation culture, as depicted in Figure 4:

Figure 4: Hofstede's 6 Organisation Culture Dimensions

DIMENSION 1	PROCESS ORIENTED Concern with means; avoids risk; each day the same	vs	RESULTS ORIENTED Concern with goals; comfortable with unfamiliar situations; each day has challenges
DIMENSION 2	PAROCHIAL Identity derived from firm; uses traditional technology	vs	PROFESSIONAL Identity derived from type of job; high tech units
DIMENSION 3	LOOSE CONTROL Involved with innovative unpredictable activities; work environment is not cost conscious	vs	TIGHT CONTROL Delivers precision/risk/products/services; work environment is cost conscious
DIMENSION 4	NORMATIVE Procedures more important than results	vs	PRAGMATIC Market driven; customer focused
DIMENSION 5¹	EMPLOYEE ORIENTED Concern for people important; decisions taken by groups or committee	vs	JOB ORIENTED Concern for job completion important; decisions taken by individual
DIMENSION 6	OPEN SYSTEM People open and welcoming to newcomers	vs	CLOSED SYSTEM People closed and secretive to newcomers; need over a year to feel at home

¹ Individuals may be both but Hofstede (1991) found organisation culture favours one or the other.

The order of the dimensions has no importance nor is each orientation meant to signify good or bad positions.

Hofstede (1991) believes the six dimensions permit different organisation cultures, or even different parts of the same organisation, to be compared; and that they can be used to identify “subcultures in one’s own organisation”.

Dimensions 1 to 4 relate primarily to the type of markets and work in which the firm is engaged; and reflect the business culture “a frequently neglected component of organisational culture”, Hofstede (1991).

Dimension 5 is governed greatly by the philosophy of the owner-manager and recent crises which may have happened.

Dimension 6 is governed by the national cultural environment.

Thus it can be supposed that each sector could be allocated positions on every one of the dimensions. In this instance, the positions would be subjective approximations. But it does offer a powerful framework to understand the intricate nature of an organisation’s culture, Hofstede (1991).

By attempting to fit each sector on the dimensions it is the author’s view that both sectors would be close to the same spot regardless of their whereabouts on a dimension.

The following section attempts to locate the sectors on the various dimensions. It is a subjective assessment and therefore crude. But it does provide a level of confidence in the use of the model.

On dimension 1 both sectors would be positioned at the results oriented end. The importance of goals was evidenced in the research data. Scanning, Decoding and

Testing are vital for achieving commercial goals; and Openness contributes towards learning how to cope with business challenges

Both sectors would be located centrally on dimensions 2 and 3. For dimension 2, identity is drawn from both ends. The owner-manager was frequently found to be a specialist and drew a sense of identity from the professional side of the dimension; and, at the same time, gained a sense of identity from the parochial side by building his/her own organisation.

For dimension 3, small firms were always adjusting their balance between either end. Many frequently found themselves in ambiguous situations with clients; this was reflected in the clarity of signals they received; yet the client base forced a cost conscious work environment upon them by rigorously questioning their budgets.

For dimension 4, both sectors are located at the pragmatic end due to the type of work they perform. Further, Scanning, Decoding, Testing and Strategy Planning are informal pursuits with considerable emphasis placed on gaining feedback from the client base. Interestingly, Hofstede (1991) found service units were positioned at the right end of dimensions 1 and 4 and law makers and monopolies at the other end.

In the case of dimension 5, both sectors are located at the job end. Small firms stand or fall by meeting deadlines for clients. Evidence was apparent that owner-managers were 'client-watchers' and planned assiduously at the project or operational level in order to deliver service to the client base.

Finally, for dimension 6, the positions are felt to be the same because both sectors are governed by the same national culture.

In summary, the 6 dimensions, especially dimensions 1-4 (work practices), are helpful for making comparisons. It allows for judgements to be made as to where similarities fit on any dimension. Hofstede's cultural model has helped to provide an explanation for the similarities found between the sectors.

The conclusion drawn is that the sectors are not the same. It is the differences which separate them. They can be considered to be different but close.

3. Explanation for the differences identified in the research

Table 69 highlights the differences between the sectors and sizes; no gender differences were evidenced.

The overall impression the differences in the detailed work practices give is that they can be grouped within Hofstede's dimensions 1, 2 and 4. It has not been possible to separate them out as they appear to have some applicability to each dimension. Nonetheless, it is plausible to assume that the differences would relate to a slight gap on these three dimensions. An explanation of these differences is given below under each item.

TABLE 69: Differences identified from the research

	Differences		
	Sector	Size	Gender
<u>Scanning</u>			
1. Areas searched			
1.1 discussion/contact with client		X	
1.2 reading relevant literature	X	X	
1.3 networking	X	X	
2. Biggest problem			
2.1 managing growth/getting new business	X	X	
2.2 managing internal crises/issues	X		
3. Signal frequency - regular/intermittent	X		
4. Self-rating effectiveness		X	
<u>Strategy Planning</u>			
5. Self-rating effectiveness	X	X	
6. Past is best guide to planning the future	X		
7. Thought-out plans in place	X	X	

- **Item 1.1 - Scanning - Areas Searched - discussion/contact with the client**

Micro firms are culturally distinguished from the other two firm sizes within this area. Their main thrust for signals and cues is by networking which acts as their conduit for “getting new business” (see tables 57 and 59).

Borrowing and adapting the finding of Wynarczyk et al (1993), cited by Storey (1994), and accepting that it refers to a difference between large and small firms he states that:

“Uncertainty for small firms is their limited customer and product base - the classic example of which is where small firms simply act as subcontractors to larger firms”.

This suggests that the size of a firm’s client portfolio is determined by size. Thus the smaller the firm the smaller the client base and the more intense the need to seek information by another route in order to access potential new business.

- **Item 1.2 - Scanning - Areas searched - reading relevant literature**

Both a sector and size difference are evident. The Management Sector read over a wide area, i.e. journals, academic papers and books, whereas the Marketing Sector appears to confine itself to its Trade Press. The micro firms reflect this state of affairs but to a lesser degree of application.

This cultural difference is intriguing as it would be expected that both sectors and all sizes would engage in reading widely, as both professions have their own body of academic knowledge.

- **Item 1.3 - Scanning - Areas searched - networking**

A sector and size difference are apparent.

At the sector level the explanation can be found within the different approaches to consulting work used by the two sectors which produce different client expectations. The cultural distinction is provided by the use of associates and

networked arrangements which are considered acceptable by the client base. In this case, the Management Sector make use of networked associates as an added resource pool for delivering projects to a client; this was not apparent within the Marketing Sector which did not surface this as a requirement.

The size difference has been alluded to in Item 1.1 above as a means of “getting new business”. It is also linked to the explanation provided for sector.

Frequently it is the larger firm sizes (10-25 and 2-9) which provide the micro firms with business as “associates”, that is, people they use, as and when required, to help them fulfil large contracts. As mentioned earlier, this is especially significant within the Management Consulting sector - one firm had 25 associates on its books. In fact, the author of this research was approached by the firm to become an associate for them.

Micro firms also use each other as an added resource for the same reason that they act in the role of associates for larger firms. In this manner some micro firms grow through their self-employed status to the next level. A comment typical of this factor was:

“I’m toying with the idea of forming a partnership with three others I work with”.

- **Item 2 - Scanning - Biggest problem**

The Management Consulting Sector is culturally distinct from the Marketing Consulting Sector regarding the problems of managing growth (Item 2.1), that is, how to build up the infrastructure of the business to meet market demand; whereas the Marketing Consulting Sector is preoccupied with ‘getting new business’ (Item 2.1).

By linking this to the factor of signal frequency (Item 3) it shows that the Management Consulting Sector receive much higher amounts of regular and ongoing signals than the Marketing Consulting Sector; the converse holds for

intermittent signals. The acquisition of business is better served by prospecting continuously; and this capability is reduced if the flow of signals is not regular and ongoing.

Culturally the Marketing Consulting Sector work at a project level between the client and the external marketplace; the Management Consulting Sector work closely within the client hierarchy. The former restricts the number and type of signals compared to the latter which often has the possibility of 'farming' an account for a number of years.

Product specialism is the explanation for the size difference (Item 2.1). The smaller firm size, particularly the micro firms, begin life as an extension of the owner-manager. It is his/her skill set, usually specialist, that forms the basis of the self-employed business. If the firm does not expand its product base it will frequently struggle to acquire sufficient clients. Further, if they also hold an attitude of not wishing to grow the problem is intensified.

The smaller firms (2-9 and micro) were more inclined to be very specialised suppliers of products such as Accountancy Training, NVQ, environmental Study Interventions, Statistical Marketing Research, Motivational programmes, Qualitative Marketing Research, and so on. These products/services were not in great demand. Moreover, many of these firms had an attitude of prospecting which was not energetic. They waited for business to come to them.

Managing internal issues was the final cultural sector differentiator (Item 2.2). The issues concerned managing staff and change; and were not unique to the Marketing Consulting Sector but the Management Consulting Sector did not surface them as a problem. Once again the explanation can be found in the different consulting cultures. The Management Consulting Sector's knowledge-based culture is to offer solutions to just such issues in their daily consulting practices, and so are more in tune with how to handle them whenever they occur within their own ambit. The

Marketing Consulting Sector's knowledge-based culture is derived from helping the client base externally.

- **Item 3 - Signal Frequency - regular/intermittent**

The sector difference for receiving regular and ongoing signals or intermittent ones has already been dealt with as a cultural issue under Item 2.

The higher amounts of regular signals and much lower amounts of intermittent ones experienced by the Management Consulting Sector is caused by type of work and position in the client organisation where consulting frequently occurs which facilitates movement within the account.

- **Item 4 - Scanning - Self-rating effectiveness**

Micro firms were 1.25 to 1.5 points lower at 5 than the other firm sizes, for instance:

firm size 10-25 had 3 firms out of 10 less than 5 rating = 30%

firm size 2-9 had 6 firms out of 20 less than 5 rating = 30%

micro firms had 11 firms out of 18 less than 5 rating = 61%

Although they all hold positive attitudes to the value of Scanning the micro firms have less commitment to performing this activity due to either a lack of formalised process or time or a lack of skill. The culture of the micro, non-growth, firm size militates against extensively performing the scanning activity. Providing it can meet its overheads and maintain the desired level of lifestyle the pressure to continually scan can be reduced; in turn this reduces the probability of developing an effective level of skill and business.

As Hay (1990) states this “..... desire to use the business simply to support an established lifestyle rather than generate maximum capital appreciation, constitutes the major barrier to growth”.

- **Item 5 - Strategy Planning - Self-rating effectiveness**

This revealed both a sector and size difference. An explanation may be provided if it is linked to the findings on the 'Effect Strategy Planning has on commercial success'; whether 'thought-out plans are in place'; and the part played by Strategy Planning in the owner-manager's firm.

The effect it has is considered beneficial; but the part it plays is as a guide only or loose influence; and only the Management sector and the larger firms have any thought-out plans in place which suggests that the practice of planning may bring with it a sense of realism about its difficulties which would support the lower median ratings of the Management Sector and the larger firm size.

- **Item 6 - Strategy Planning - Past is the best guide to the future when setting plans**

Values were the difference between the sectors regarding whether the past is a fruitful guide to future planning.

The Management Consulting Sector are influenced by what interests them, the effect it has on lifestyle - their own and others; the type of business sector - what it stands for; the result of their work, that is, their efforts to help people learn so they can be stronger and change, or review their values. These attitudes help subordinate the role of planning and what it is based upon in their minds. In contrast, the Marketing Consulting Sector are more historically based without explicit signs of concessions to these kinds of values.

- **Item 7 - Strategy Planning - What thought-out plans are in place**

A size difference was evident. Interestingly, the smaller the firm size became the less became the interest in Strategy Planning. At the micro level, 65% of the firms felt Strategy Planning had some effect upon commercial success; but 100% did not have plans in place or plans only of an extremely limited nature. The explanation is due to a difference in perspective as to the reason for being in business.

First, intellectually the larger firms (10-25) consider it is necessary to have some thought-out plans even if they are used simply as guides; this view is missing from the micro firms. Second, the larger firms have higher revenues to attain and responsibility for staff so accept planning is more helpful than not to maintain this situation; whereas the micro firms only have one person to support, and very little overheads to cover; and many do not want to grow but simply maintain their lifestyle and independence, although independence can carry a variety of meanings, Gray (1990).

A sector difference was evident which may be linked to the difference in rating effectiveness. Both are low, but the Management Sector is one point lower at 4.5 yet have four times more firms with plans in place (see table 51) which could suggest that the reality of planning is accompanied by a sense of realism about its difficulty.

Summary

By using Hofstede's (1991) 6 dimensions of organisation culture it was found possible to provide a culture explanation for all the similarities and eight of the differences in the research. The differences were: discussion/contact with client (item 1.1); reading the relevant literature (item 1.2); networking (item 1.3); managing growth and getting new business (item 2.1); managing internal issues (item 2.2); regular/intermittent signal frequency (item 3); scanning self-rating effectiveness (item 4); past is the best guide to planning the future (item 6).

Culture has been variously described as something which:

“defines appropriate behaviour, bonds and motivates individuals and asserts solutions where there is ambiguity. It governs the way a company processes information, its internal relations and its values”. Hampden-Turner (1994)

“It is *the collective programming of the mind which distinguishes the members of one group or category of people from another*”. Hofstede (1991) What he goes on to refer to as mental programmes which are ‘patterns of thinking, feeling and activity’ or the ‘*software of the mind*’.

Watson (1994) says it is a 'system of meanings which are shared by members of a human group and which define what is good and bad, right and wrong and what are the appropriate ways for members of that group to think and behave'.

To understand what culture consists of it is necessary to peel away each layer as if it were an onion, Trompenaars (1993), Hofstede (1991). The outer superficial layer concerns symbols and each successive layer brings closer the very basic assumptions of the culture. Further, it has been found that where it was once thought that shared values were the basis of the firm's culture. This viewpoint is now disputed. A study by Hofstede et al (1990) found empirical evidence that showed "..... shared perceptions of daily practices to be the core of an organisation's culture".

In other words, they found although the values of the firm's owner do influence and shape the culture the manner in which these cultures influence the staff "is through shared practices". "Business culture difference reside more in people's practices than in their values", Hofstede (1991).

Goffee & Scase (1995) also show that knowledge worker firms can have different practices which are "contrary to the predominant culture of these enterprises. For instance, they remark that different control mechanisms are sometimes used for different sets of staff in knowledge-working firms: hierarchical controls for non-professional staff and internalised controls for professional ones.

These ideas are reinforced by the different detailed work practices found between the Management and Marketing Consulting Sectors and discussed earlier in this chapter. Further, Hofstede et al (1990) believe that their quantified approach " can help managers and researchers to decide whether an organisation should be considered as one single culture or as a multitude of sub-cultures".

Accepting that their study was concerned with large complex organisations it has been helpful in describing why two 'similar' sectors of small firms have a number of

differences; and why even different firm sizes can be culturally dissimilar. As Hofstede et al (1990) remark “Among organisational cultures we found considerable differences in practices for people who held about the same values”.

Thus, it has been found possible to provide a culture explanation for both the similarities and differences in the research.

The next section will address the question: why do the sectors have so many similarities and so few differences?

4. Discussion of why the sectors have so many similarities and so few differences

Set out below are four topics which provide an explanation for the high degree of similarity between the sectors. They are: the acculturation process; competing discourses; paradigm shifts; and methodological flaws. Each will be taken in turn and discussed.

4.1 Acculturation Process

Owner-managers from both sectors have been through a similar acculturation process prior to becoming self-employed.

What stands out prominently, is that most of the owner-managers were in the age group of early 30s to 40s and had held middle or senior management positions within large organisations before starting their own firms. And had naturally focused the attention of their own small firms on becoming suppliers of consultancy to this size of client.

Therefore, they -

- (1) understood the culture of large organisations and how they behaved and perceived issues. Further, both sectors dealt with similar types of clients, i.e. Boards of Directors and managers; and
- (2) the owner-managers had frequently employed consultants in their previous

capacity as managers or directors and were aware of how to manage them. This provided useful insights on how to manage themselves when they crossed over and took on the consulting role. In other words, they needed no or very little training in understanding the 'rules of engagement'; finally,

- (3) although the technologies of the two sectors are different, the interventions they make to gain entry into the client base and undertake contracts effectively are the same, often referred to as consulting sales and customer focus skills.

In other words, the symbols, rituals and norms were understood and had been practised for a long time. They understood them as only insiders can, Hofstede (1991).

4.2 Competing Discourses

This section demonstrates how owner-managers can arrive at similar conclusions about their understanding of situations in which they find themselves. For instance, occasionally the data from the structured questionnaire told a different story from the data of the qualitative interviews. It brought out contrasting data that Scanning, and Decoding and Testing were, on the one hand, considered to be valued roles to be undertaken by the owner-manager; but, on the other hand, were not performed well. Strategy Planning provided a similar viewpoint concerning performance, although it is not as valued as the other three activities. Intellectually owner-managers can, and do, support the four factors but it is the process which turns them away and reduces their application of effort for them.

The owner-managers told similar stories which identified that they lacked skills in these activities; that they did not have the time for them; did not allocate resources to them; did not perform them in any systematic manner; and did not hold positive attitudes to them. These stories suggest an attempt at ordering their worlds.

Law (1994) suggests that we should seek a grounded explanation expressed in these stories and metaphors used by the owner-managers to understand their worlds. What he refers to as "thick descriptions".

This postmodern explanation suggests that symmetry should be sought. That is, neither of the issues being examined should be given the privileged status of being more or less worthy of explanation than the other.

These competing discourses can be seen as ordering attempts, as patterns, not orders, Law (1994) and “are just orderings of reality and are influenced by my horizon and my interests to be served. What emerges is a rhetoric by which I produce a view that serves my agenda that I bring to the situation”, Morgan (1993).

In summary, the example of competing discourses helps to explain why the owner-managers were comfortable holding two viewpoints; one concerning the value of Scanning, Decoding, Testing and Strategy Planning; and a contrasting viewpoint around the application of these activities. The owner-managers arrived at similar conclusions about making sense of the situation in which they found themselves. This should not come as a surprise for their sector cultures were closely aligned and the acculturation process was similar. Therefore, it might be expected that they engage in similar discourses about ordering their worlds. This provides a further explanation for the similarities found in the research between the sectors.

4.3 Paradigm Shifts

Referring back to Strategy Planning what the findings reinforce is that small business owners within these sectors do not use Strategy Planning as a core component for managing their firms. This poses the question why is emergent planning celebrated by small business owners? Perhaps one solution can be found in the paradigm movements in management from the 1960s to the current time.

Reed (1996) suggests that we privilege certain explanations at different times in the debate on management.

The paradigm of the 1960s/70s was dominated by “economic, technological and organisational imperatives”. These were the core drivers for change. During the 1980s, however, the paradigm itself was transformed. This decade saw the rise to

prominence of the culture school: whereby an organisation's attitudes and behaviours were governed by the cultural norms and values of the organisation. This discouraged the notion of collective answers to managerial issues in favour of understanding more the individual's aspirations and working to produce situations where the individual could experience flexibility in the workplace.

The 1990s, Reed (1996) argues, is changing yet again to an ecological paradigm for organisations which eschew the 1980s culture driven ideals in favour of the emphasis on "commercial values and public virtues" .

Many of the small business owners in the research employed a form of emergent planning rather than any formal planning process; and the reasons underpinning this were very much aligned to the 1980s paradigm of individualism and flexibility. Frequently they commented that their reasons against formal planning were: the fear of losing control; of wanting to be flexible and to be free to respond quickly; to stay in charge; to be in a position to learn. This sort of rugged individualism is very much a part of the cultural paradigm of the 1980s.

On a broader front than just planning, the research also can be shown to reflect the 1990s paradigm for social responsibility. One of the small business owners was using some of her profits to help educate (put through University) an orphan in South Africa; others were using their expertise and skills to encourage firms to be more socially responsible with affirmative action programmes; another had just completed a book on firms' needs for ecological maturity in their operations. Another had focused his business in 'Care in the Community' not from a financial viewpoint - it is extremely low paid - but from an ideals standpoint; it fitted his values about how he wanted to spend his working life. Interestingly, all these small business owners were in the Management Consulting Sector.

4.4 Methodological Flaws

A methodological flaw may have occurred; perhaps a third sector should have been included which was not part of the consulting world, for instance, Printing, Computer

Bureaux, Haulage Contractors, or small Engineering firms. This, perhaps, would have provided a more diverse range of views.

Further, the interview process may have asked inappropriate questions of the owner-managers. Questions that did not enable differences or competing discourses to be sufficiently aired and “clues to patterns", Law (1994), uncovered.

5. Conclusion

What stands out clearly is that culture provides a powerful explanation for why so many similarities and so few differences were uncovered in the research.

By using Hofstede's (1991) 6 organisation culture dimensions and by attempting, albeit subjectively, to locate the sectors on each dimension, it was possible to show that the cultures of the two sectors were different but quite closely aligned. Thus it could be expected that they would contain many similarities. Therefore the few differences which were identified defined the gap between the two sectors.

Several other explanations were provided to widen the discussion on why more similarities than differences were found. They range from the acculturation process undergone by owner-managers prior to starting their own firms; competing discourses which discusses the link between acceptance at an intellectual level and refusal at a process level of certain activities; to paradigm shifts which discuss why individualism and flexibility are keenly sought after in the strategic planning findings; finally to methodological flaws, which would be arrogant to discount.

Notwithstanding these statements, the degree of similarity found provides a basis for the Learning-Decoding Approach model which is explained in Chapter 10.

CHAPTER 10: A LEARNING-DECODING APPROACH MODEL OF SMALL BUSINESS

1. Introduction

This chapter is presented in three sections. Section one discusses the Learning-Decoding Approach model of small business; section two discusses the major themes running through the research; section three synthesises the findings of the research and the themes for the Learning-Decoding Approach model and within this process the results are integrated with the literature.

Section 1 - A Learning-Decoding Approach model of small business

The findings in the previous chapters have led to the building of a tentative Learning-Decoding Approach model (see Figure 5). The learning portion of the Learning-Decoding Approach can be viewed as a spectrum from slow or little learning to fast or continuous learning. The position a firm is located at is dependent upon the small business owner's skill at Scanning, Decoding and Testing, and whether (s)he has an open attitude and energy towards changing Mental Models. A firm may be positioned at the closed end of the Openness Attitude spectrum if attitudes and energies are low or uncertain; the open end if the converse holds (see Figure 5).

The whole process of Scanning, Decoding and Testing can be considered as the Decoding portion of the Learning-Decoding Approach. The three factors have equal value. By including data from the assessments of the rating effectiveness at Scanning, Decoding and Testing, a further spectrum is added termed Application Effectiveness (see Figure 5).

Ineffective behaviour in carrying out any of these three activities reduces each to the lowest activity level. Except by happenstance, it is not possible to be excellent at Scanning and Decoding, poor at Testing, and yet occupy an excellent position on the Application Effectiveness Spectrum. Nevertheless, the final position on the Learning Spectrum could be influenced if the owner-manager's attitude to Openness is high. It is felt this would compensate for any low Application Effectiveness score and assist in 'dragging' it up.

A refinement is added if an emergent or strategy planning process is in operation, as the outcome of Testing Mental models can be fed into it. The result is then checked (scanned and decoded) to determine if it meets the plan; which in turn, confirms or disconfirms the Mental Model.

The core of the model and the key problem to overcome is how the owner-managers can measure, with assurance, their performance effectiveness at the five factors of Scanning, Decoding, Testing, Strategy Planning and Openness.

The effectiveness level should be measured from at least two standpoints; and along a bi-polar series of questions which can be transformed into a profile. The first standpoint provides a self-rating effectiveness profile by the owner-manager; the second standpoint is an assessment, along the same set of questions, by an independent party; a partner in the business, staff member, family member or trusted friend if a micro firm.

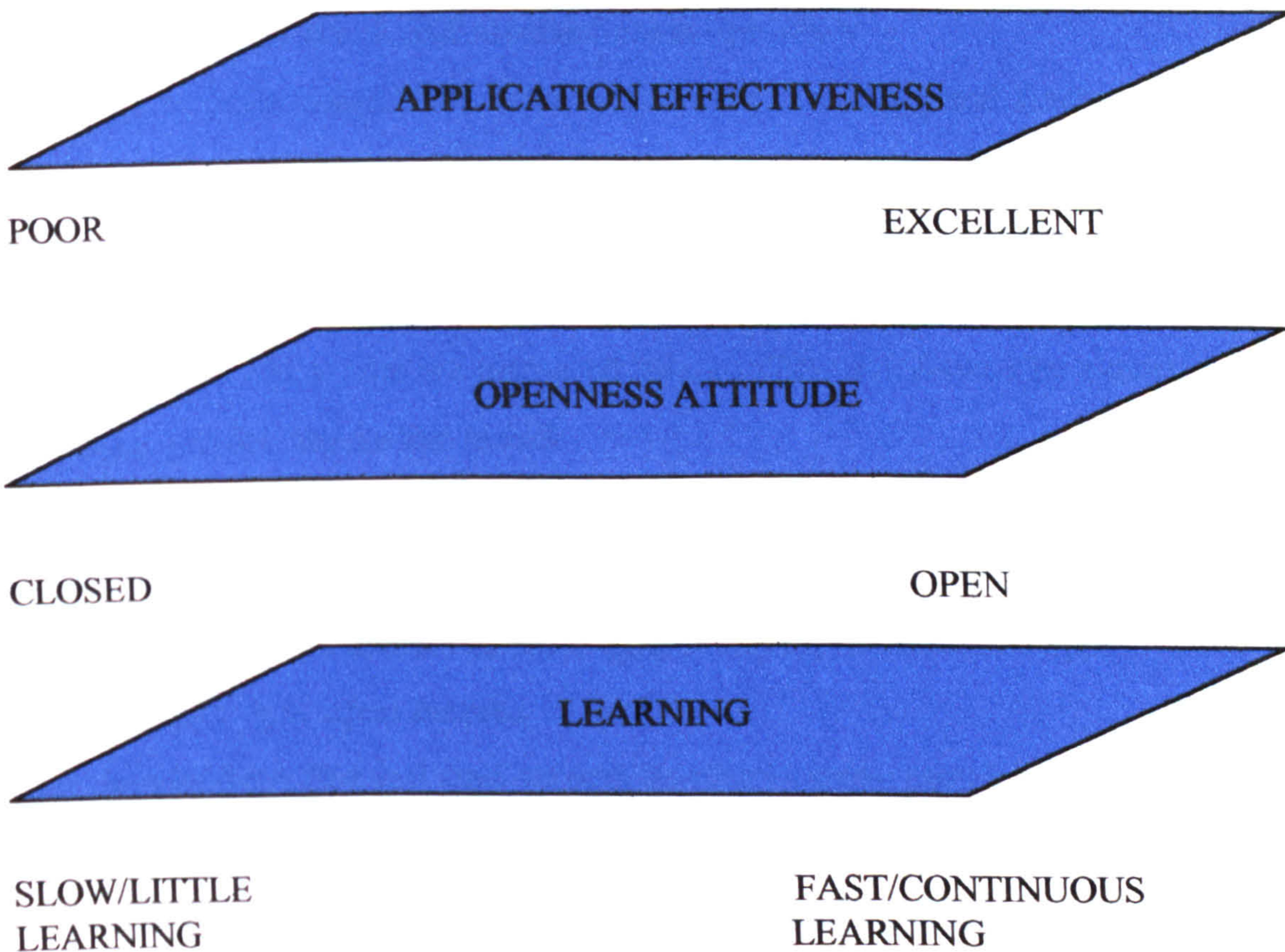
The two profiles produced would be available for comparison. One acts as an 180° feedback mechanism to the other. The results provide the opportunity for reflection and enhancement of awareness.

If advisers are available it affords them the opportunity to intervene and work closely with the owner-manager to understand the meaning behind the results. Thus learning mechanisms can be built to close the gaps or move the profile line higher.

The aim is to represent the degree of learning occurring, and put the owner-manager in a better position to tackle any barriers to growth. The position an owner-manager is accorded on the first two spectrums converts into a learning measure. The nearer the position to the left the less learning occurs and the less opportunity there is for reducing the barrier to growth. This is represented by the third spectrum "Learning".

Figure 5:

Tentative Learning-Decoding Approach Model



A summary of the key results from sections two and three provides support for the base upon which the Learning-Decoding Approach model is built. For instance, it shows:

- (1) Scanning the environment is a key driver for learning, acquiring new business, and for stimulating growth potential.
- (2) Learning for the small business owner is first, a function of scanning effectiveness and the preparedness to be open to making adjustments to personal behaviour, assumptions, and mental models; and second, is a function of the need to Decode and Test effectively.
- (3) Decoding and Testing are either undertaken in a Single Loop Learning fashion or in a Double Loop Learning fashion, depending on the level of energy or openness for change. These are fully discussed in section three.

Single Loop Learning detects and corrects errors with the intention of maintaining the status quo, i.e. it does not question any underlying

assumptions or mental models.

Double Loop Learning tests, and corrects if necessary, the underlying rules, theories in use, and assumptions in operation.

- (4) Gender is not a significant factor in Scanning, Decoding and Testing.

Consideration of the Learning-Decoding Approach model indicates a number of benefits accrue from its acceptance by owner-managers and advisers. The expected benefits which would accrue are discussed below. This is followed by a discussion of some future possibilities for the model.

Benefits of the Learning-Decoding Approach Model

1. It does not discriminate between gender. Both can learn and apply the skills with equal success.
2. It provides a first real step, termed learning to learn, prior to the step of learning to overcome barriers to growth. By learning how to use Scanning, Decoding and Testing, owner-managers put themselves in a better position to learn to cope, as they have provided themselves with more valid data on which to take action.
3. It provides a model for advisers to small firms to intervene into the life of the firm. They can use it as a metric to talk to owner-managers. And if applied on a one-to-one basis it encourages the owner-manager to work jointly with the adviser on working through the model for his/her firm.
4. It is a self-learning tool for owner-managers which sets the owner-manager off on a continuous learning process and helps produce a Learning organisation. The owner-manager can begin this process immediately. (S)he remains focused on real time issues thus decreasing the likelihood of 'blindness' or 'defensive reasoning' which comes from not wanting to face organisational reality.
5. It increases the sophistication of owner-managers in managing their businesses. They are put in a position to be able to articulate more clearly their Mental Models and Assumptions. For instance,

it increases their awareness of the interplay between challenging their basic assumptions and maintaining the status quo which means they become skilled in knowing when to single and double-loop learn.

6. It enhances their awareness of the need for planning as a worthwhile and productive tool; and what to update within the plan.
7. It focuses owner-managers' attention on the notion that Mental Models and Assumptions benefit from being tested and challenged. And it builds their confidence in undertaking this activity.
8. It provides a metric for small firms of what part of the Learning-Decoding Approach model they perform well or poorly and acts as a built-in "encourager" or motivator to make changes.
9. It acts as a useful team approach model for firms with a number of senior personnel. It will help to build the team whilst focusing on operational issues.

Reflection on the future development of the Learning-Decoding Approach model presents some exciting possibilities.

Future Possibilities for the Learning-Decoding Approach Model

1. Expand the approach to other sectors to understand its relevance and acceptability. It is plausible to assume knowledge worker industries would benefit in its current form, but would adjustments need to be made for non-knowledge worker firms?
2. Add in a further spectrum, namely, Strategy Planning. This would produce a type of open systems model first referred to in Chapter 3, Part 1, of the Literature Review on Organisation Theory, whereby the strategy plans provide a feedback loop back to Scanning, Decoding and Testing.
3. Develop it as a mechanism for comparing the learning rate of a number of small firms. It may act as a metric for predicting firms which can grow fast.

4. Determine what adjustments need to be made to the model so that it can be used as a tool for helping firms during the period when the possibility of failure is real. Is there a time during that first period of a firm's life where its application could be instrumental in preventing disaster?

The current Learning-Decoding Approach model is a crude measure. But it shows that if an owner-manager is effective in applying Scanning, Decoding and Testing and holds an open attitude the possibility of learning will be high. The assumption is that any discrepancy between the effectiveness scores would reduce all three to the lowest score, and the only means available to the owner-manager to locate higher on the learning spectrum would be if the attitude to openness was high. What it suggests is that successful firms are in a constant learning mode. And these findings go a small way to highlighting the notion that those who do not utilise the Learning-Decoding Approach are in danger of producing a barrier to growth of their own making. Finally, Strategy Planning does not feature in this model, except as a possible outcome of the learning spectrum. Interestingly, a summary of the key points on Strategy Planning from section three reveal that most owner-managers do not engage in the activity.

For instance, using Joyce et al (1994) typology of planners in which they identify four distinct styles of strategic management, viz:

- (1) Strategic Planners - have written or formal business plans for at least 3 years into the future.
- (2) Short-Term Planners - have written business plans covering the present time or next year or two only.
- (3) Informal Strategists - lack any formal business plan but project ahead three or more years using an informal process.
- (4) Evolutionists - lack any written or formal business plans and have a planning scope of two or less years; this incorporates those firms which do not plan at all.

It was found that most small business owners were Evolutionists: people who do not plan, which supports the findings of Joyce et al (1994) study of firms in Central London; “The Evolutionist Style of Management was the most common of the four types identified here and less than one in four were Strategic Planners”. In fact what the research into consulting firms highlighted was their preoccupation with goals and emergent planning.

In fact no firms were found to be Strategic Planners, that is, people who try to plan three years ahead at the least, and have developed formal business plans.

It is evident that Strategy Planning is only a minor consideration to small business owners: it is used primarily as a project-based tool. Those who engage in it for planning the future use it only as a guide; most firms fall into the range of permitting strategy planning to have a “loose influence” to no influence at all.

Section 2 - Major themes running through the research

The research contains 5 major themes.

Each theme is described briefly below before a more detailed discussion takes place; and no inference is made to priority from the order discussed.

Themes running through the Research

- Theme 1: The environment for scanning is perceived to be the client base; commercial success is based upon the small business owner’s ability to ‘client-watch’ in order to understand and satisfy signals picked up there.
- Theme 2: Decoding & Testing Assumptions and Mental Models are learned skills which influence commercial success.
- Theme 3: The setting of goals and the use of emergent planning to achieve the goals is the favoured process of small business owners. Planning is focused primarily on the delivery of service and projects to the base, not on foreseeing the future.

Theme 4: Managing growth and getting business are the primary problems confronting small business owners. However, the first is an issue generally for the larger firms; whilst the latter is mainly a micro firm concern.

Theme 5: Informal processes and procedures are endemic in the employment of Scanning, Decoding, Testing and Strategy Planning. Formality is eschewed as an irrelevancy. Ability to apply these “tools” on an ongoing basis is prized.

A more detailed discussion of the themes occurs below:

Theme 1

The environment for scanning is perceived to be the client base by both sectors; commercial success is based upon the small business owner’s ability to “client-watch” in order to understand and satisfy signals picked up there. Each sector receives the bulk of its signals from client discussion and contact.

The next most widely used area for picking up signals comes from reading the literature.

Networking is perceived as a popular mechanism for sending and receiving information; and interestingly increases in usage, i.e. more small business owners use it at the micro level than at the larger firm level. Though reference will be made later on that as firms mature their networking process alters; and in the case of Consulting firms may not associate what they do as networking per se.

Theme 2

Decoding and Testing Assumptions and Mental Models are learned, not innate, skills: and both influence the small business owner’s commercial success. However, belief in the processes does not transform necessarily into effective action. In other words, some small business owners ignore the messages they receive about the beneficial effects of Decoding and Testing. This highlights the powerful influence which the

readiness to be open to changing Mental Models and Assumptions has on the Learning-Decoding Approach.

Theme 3

The setting of goals and the use of emergent planning to achieve the goals is the favoured process of small business owners; this allows them to be flexible and abort plans when necessary. Otherwise planning is not perceived as influential in their commercial success. Small business owners eschew the notion of fixed, immutable plans. They desire the freedom to move about their business in line with market opportunity; which means being reactive to events. Data derived from the Decoding and Testing process is used to help them react, not plan. Any planning, so called, which they undertake is focused at the client level and concerns the delivery of service not the development of future scenarios.

Theme 4

Managing growth and getting business are the primary problems confronting small business owners. The former is an issue generally for the larger firms; whilst the latter is a micro firm concern. The amount of scanning which a small business owner performs is a problem for all firm sizes but especially for the micro firms. It has been shown in Theme 1 that the environment scanned by small business owners is the client base. This restricted area becomes more restrictive for the micro firms which do not have a large number of clients and so immerse themselves into the current portfolio and find they have less time, energy, or inclination to scan elsewhere. In other words, they do not scan or prospect on a continuous basis, but only when their current client(s) have no further use of them.

Theme 5

Informal processes and procedures are endemic in the employment of Scanning, Decoding, Testing and Strategy Planning. Formality is eschewed as an irrelevancy at best, a hindrance at worst. The application of these “tools” on an ongoing basis is considered the proper way to go about this. However, at the micro level, informality can be the excuse for indifference.

Section 3 - Synthesis of the Research Findings and Themes and Integration back to the Literature

3.1 The Learning-Decoding Approach (comprising Scanning, Decoding & Testing)

It has been shown in the research that scanning the environment for signals and cues is focused primarily on the smaller arena of the client base.

This suggests that the process of scanning has a disproportionate influence on the commercial success of the firm, compared with Decoding, Testing and Strategy Planning; due to the almost selective nature of this process. This has the effect of restricting the scope of Decoding, Testing and Strategy Planning; that is, it governs the source and range of data available to these subsequent processes.

Pettigrew and Whipp (1991), citing Whipp (1984), suggest the manner in which managers perceive their environment is a consequence of their beliefs.

Further, if this notion is linked to the degree of energy for, and openness to, changing Mental Models and Testing Assumptions,¹ then it can be deduced that Scanning also has a major impact on the opportunity to learn, acquire new business; and consequently increase the potential for growth.

The key to the small business owner's learning lies first in the effectiveness with which scanning is performed and a readiness to be open to modify behaviour, assumptions and models; and second by the need for a capability to Decode and Test effectively.

The importance of the scanning activity is highlighted by Goffee & Scase (1995) as a way of, amongst other things, making best use of the flexibility advantages inherent in a small business.

Pettigrew and Whipp (1991) believe that organisations must develop into open learning systems; and this has to be accomplished by developing a good understanding

¹ Mental Models are deeply ingrained assumptions, generalisations, or even pictures or images that influence how we understand the world and how we take action. Senge (1990).

of the firm's environment based upon the way it "acquires, interprets and processes information about its environment".

In some cases it could mean "unlearning old behaviours" as Swieringa & Wierdsma (1992) put it, before any changes or improvements can take place. So the effect of openness to, and energy for, change has become a major factor in their success.

As Hamel & Prahalad (1989) remark:

"An organisation's capacity to improve existing skills and learn new ones is the most defensible competitive advantage of all".

In another place they argue that a key skill "is to learn faster than competitors An old timer would call it prospecting, we call it *expeditionary marketing*". Hamel & Prahalad (1994).

This research calls it the Learning-Decoding Approach comprising Scanning, Decoding and Testing.

Although they are referring to a size of organisation outside the scope of this research their words have a relevance for the small business owner's Scanning, Decoding and Testing processes; for it is by, and through, these processes that the small business owners learn what is required to provide themselves with the skills, insights and knowledge to sustain themselves.

The research shows that scanning for signals and cues occurs in three main ways:

- (1) from, and during, client contact;
- (2) by reading the relevant literature;
- (3) by networking.

It was found that item 1, client contact, is where the owner-manager mostly focuses his/her attention. This is supported by Joyce et al (1995) findings that customers are the small business owner's primary influencer. A further area which engages the owner-managers' attention as a means of scanning is networking.

Joyce et al (1994) suggest that:

“The personal communication system is used to make sense of, make understandable, the market signals. This system, which is a network of interpersonal contacts, provides particular information and helps the small business to sift through the information which is passing through mass media and other channels”.

They argue that as the environment becomes more turbulent small firms increase their networking in order to find out how to present themselves more favourably to it.

Birley et al (1989) reinforce their point, suggesting “that personal networking is a particularly apposite mechanism for information gathering by owners/managers of small organisations”.

These views would be supported by the evidence from the research but only for micro firms the findings are less emphatic for larger firms; which could provide support for Blackburn’s (1994) statement on government policy becoming dependent upon a false premise that firms use networks extensively, especially as “this sets it against a body of evidence which suggests that small business owners do not network”.

Curran et al (1993) consider the importance attached to the role of networks is not commensurate with its use by firms. Networking is not widely practised by firms. In fact due to their needs for independence and autonomy a “ ‘fortress enterprise’ mentality in dealing with the wider environment” is manifested. Indeed they argue that owner-managers frequently have small networks.

The findings of this research would seem to fit somewhere between those who advocate the use of networks and networking and those who believe it has a reduced applicability for the firm.

From another perspective Gibb & Davies (1990) suggest that “there is considerable evidence to demonstrate that the nature of the networks of the entrepreneur change as the business develops: but there is little hard evidence as to how these change as the

business grows and how the changes impact upon the potential for growth". This finding may explain why there appears to be a tendency for larger firms to use it less than the micro firms; or that they do not associate what they do with networking.

In addition Ali (1992) shows that as firms mature they move from their original marketing category of either transaction or network to a combination of these. Although he is referring to networking as a marketing tool primarily for start-up firms. His views are borrowed to reinforce the notion that networking changes with maturity or perhaps size.

Birley et al (1989) citing Aldrich et al (1986) remark that networks to be truly effective should be diverse and dense - they should consist of a multiplicity of heterogeneous contacts who interact with each other. From this situation comes a richer source of information and perspective than if the network is homogeneous.

The research does not cover this point. But it is plausible to deduce that both Sectors are not involved with diverse and dense networks because two sets of firm sizes in each Sector (10-25; 2-9) are not greatly represented in this area, (see table 59). The use of networks is more likely to be selective and efficient to meet the specific needs of knowledge-intense workers. Or put another way the consulting sector is not a primary user of networks or networking, which could support Blackburn's (1994) findings that networks are "determined by the sector conditions of the business, shattering geographical boundaries".

However, as a conclusion, it would be wise to be reminded of the statement epitomised by Curran et al (1993) that:

“ ‘Networks’ and ‘networking’ may be fashionable in the discussion of the ways in which individuals articulate with the wider economy but small business-owners’ behaviour indicates that networks and networking associated with the running of the enterprise are not highly developed”.

Learning is a function of Decoding and Testing, as these are the processes undertaken to assimilate data. They are considered to be learned skills not innate ones by the small business owners; and so can be taught; although these taught skills of themselves are not a guarantee of learning as will be shown later on in the chapter. As Senge (1990) comments, much innovative thinking and many excellent strategies are refused the light of day due to the influence of Mental Models: these often conflict or contrast with the Mental Models view of how the situation should be managed. In other words, the Mental Models encourage the continuation of current behaviours and thought. “That is why the discipline of managing Mental Models - surfacing, testing, and improving our internal pictures of how the world works - promises to be a major breakthrough for building learning organisations”. (Senge 1990)

In support of this view Whittington (1993) suggests that the cognitive structures used by managers should be examined regularly especially when projects have been unsuccessful and they need to develop a mindset which looks for opportunities and possibilities in moments of danger for the firm.

Decoding and Testing are about providing an informed choice for the small business owner about whether to change the Mental Models and Assumptions upon which his/her way of running the business is formulated. This fits nicely with Swieringa & Wierdsma’s (1992) proposal that:

“Learning is the changing of behaviour. A goal of the change in behaviour is to arrive at a form of behaviour which corresponds better to the goals of the learner. In other words behaviour that is more effective”.

Law (1994) refers to it as second order learning which means knowing “..... how to *find out* how to do it”.

It also supports Argyris’ (1992) viewpoint that “Learning is the detection and correction of error. An error is any mismatch between our intentions and what actually happens”. Later on Argyris (1993) remarks that learning can also happen when it happens on its first occasion or when what you believe you know you can reproduce.

A small business owner's successful commercial performance is based upon matching, in this case Decoding and Testing, their level of accomplishment with their goals (intentions).

3.2 Single and Double Loop Learning applied to Decoding & Testing

Further impetus is given to the research notion that Decoding and Testing are primary learning methods for small business owners by Argyris & Schon (1977) who coined the terms "single loop" and "double loop" learning to describe the learning processes employed by professionals in organisations. Single loop learning focuses on the external environment where a problem is highlighted then corrected. They assert that this process lacks depth because the assumptions behind the rules are never tested.

On the other hand, double loop learning caters for depth: as it tests the underlying insights (theories and assumptions) and the rules in operation; that is it challenges the basic assumptions behind the issue(s) needing correction. They argue that when double loop learning is used effectively it mirrors the reasoning behind people's actions, Argyris (1991). Each of the learning processes lead to different outcomes. For instance, Single Loop Learning activities (Argyris, 1993, also terms this Model I action strategies) encompass activities that do not promote testing of assumptions; whilst Double Loop Learning (termed also Model II) do demand inquiry into, and testing of, assumptions, Argyris (1993). Furthermore, in his studies of management consultants he found that they were using "a theory of action". A natural human process whereby rules and guidelines are developed to assist them to understand their own, and others', behaviour. Frequently the theory of action showed a dramatic difference between what they espoused and what they actually did and 'defensive routines' were employed to help people "avoid testing in a truly independent, objective fashion", Argyris (1991) because to do so would leave them vulnerable. The paradox is that it frequently does just that. Moreover, managers may espouse a double-loop learning model, what Argyris (1993) terms Model II, but inevitably they do not enjoy the competencies to effect it. They reveal themselves to be "skilfully incompetent" which demands training to overcome it.

In this research the Mental Models and Assumptions are the equivalent of the theory of action. What is not certain is whether they match the espoused theory or the theory in use. The vulnerability of small businesses to the rapid and dramatic moves in the environment suggest it is the theory in use that reflects their Mental Models and Assumptions.

As Argyris (1992) argues single loop learning is used correctly for the day-to-day work in the firm; but double loop learning should be employed when the small business owner is faced with complexity and variety; it guarantees the firm's future.

“Although single loop actions are the most numerous, they are not necessarily the most powerful. Double loop actions - the master programs - control the long-range effectiveness, and hence, the ultimate destiny of the system”.

Argyris (1992).

Interestingly, the research identified the notion that Decoding and Testing are learned skills. Argyris (1991) would support this, with the proviso that it is much more difficult to learn the new skills which reflect the double loop learning model. It is naive to assume that if people perceive an inconsistency in their actions then they would correct them. What Argyris has found is that double loop inquiry will frequently confront the small business owners with “the governing variables of their theory of action” which asks them to question their values and basic assumptions. This may impose a vulnerability upon them which is too threatening. However, if the governing variables in their theory of action are of a more standard business nature then it is feasible they can question them. This is encapsulated in his definition of the governing variables as valid information, free and informed choice and commitment, Argyris & Schon (1977).

Double loop learning is “..... an invitation to others to confront one's views; to alter them in order to produce the position that is based on the most complete and valid information possible and to which people involved can be internally committed”, Argyris & Schon (1977). This process revealed itself many times in the research. Many small business owners perceived themselves very ready to ask for and receive

advice, counselling or coaching. However, others were not prepared to do this, contending that their views were fixed and unlikely to change.

What is highlighted is Decoding and Testing can be either single loop or double loop depending upon the motivation or level of energy and openness for changing. If these are absent any Decoding and Testing, at best, will be single loop with basic Assumptions and Mental Models remaining untested; at worst, it implies, that it will not occur. As Senge (1990) remarks “many insights into new markets or outmoded organisational practices fail to get put into practice because they conflict with powerful, tacit mental models”. In fact the Learning-Decoding Approach, for some small business owners, may be a process of unlearning. Which means it is not a question of learning new knowledge or insights but of unlearning old behaviours, Swieringa & Wierdsma (1992). Some small business owners who have low energy for change could find this difficult if not impossible.

Their work refers to the inability or refusal to test norms as “blindness” which will lead to “blindness to fact (sic) there is a problem; blindness to fact problems need solutions; blindness to alternative solutions”, Swieringa & Wierdsma (1992). What Argyris (1991) refers to as “defensive reasoning” and which “occurs when individuals (1) hold premises the validity of which is questionable yet they think it is not; (2) make references that do not necessarily follow from the premises yet they think they do; and (3) reach conclusions that they believe they have tested carefully yet they have not because the way they have been framed makes them untestable”.

Although he is referring primarily to internal organisational issues and frequently to interpersonal ones, the idea is borrowed as it adequately sums up the situation of inadequate Testing by low energy small business owners. Later on, Argyris (1993), suggests that “an *organisational defensive routine* is any policy or action that inhibits individuals, intergroups, and organisations from experiencing embarrassment or threat”. He sees them as “anti-learning”.

Before the Learning-Decoding Approach can become operational it requires the small business owner to be prepared, or be open, to modify or adjust his/her Mental Models and Assumptions. Without this requirement Decoding and Testing would be reduced to a Single Loop Learning process. This notion of openness receives wide support across both sectors, genders and all sizes.

3.3 Storey's Categorisation

This research puts the case that Scanning, Decoding and Testing are factors or processes which are necessary for overcoming the barriers to growth. However, as Storey (1994) points out there are many factors which influence small business growth (see Figure 6).

Storey (1994) proposes a three component categorisation for understanding the growth of the small firm. And he portrays it as three intersecting circles. The first circle is called the entrepreneur; the second, the firm; and the third, strategy. Each circle consists of a number of factors: the entrepreneur has 15; the firm has 6; and strategy has 14. The Learning-Decoding Approach, as will be shown, fits loosely within factor 6 - market adjustments - which is located under strategy.

Figure 6: Storey's Factors influencing growth in small firms.²

<u>The entrepreneur/resources</u>	<u>The firm</u>	<u>Strategy</u>
1 Motivation	1 Age	1 Workforce training
2 Unemployment	2 Sector	2 Management training
3 Education	3 Legal form	3 External equity
4 Management experience	4 Location	4 Technological sophistication
5 Number of founders	5 Size	5 Market positioning
6 Prior self-employment	6 Ownership	6 Market adjustments
7 Family history		7 Planning
8 Social marginality		8 New products
9 Functional skills		9 Management recruitment
10 Training		10 State support
11 Age		11 Customer concentration
12 Prior business failure		12 Competition
13 Prior sector experience		13 Information & advice
14 Prior firm size experience		14 Exporting
15 Gender		

With regard to factor 6 - Market Adjustments - which Storey (1994) describes as the required ability of the small firm "...to survive crises relating to changing customer composition, changing regulations, changing technology, etc.", he cites Smallbone et al (1993) who believe the capability for growth is governed by appropriate adjustments and alignments to these pressures. So it seems plausible to assume that any process of adjustment would require effective Scanning, Decoding and Testing especially if a firm may have to ride out crises due to environmental turbulence, and to manoeuvre and plot its way through a multiplicity of legal, organisational and technology changes, Storey (1994). He refers to the work of Smallbone et al (1993) and states that "the ability to make these adjustments in response to these crises is central to growth".

² Taken from Storey, D.J., 1994 - Understanding the Small Business Sector, p.123.

He uses a study undertaken by Smallbone et al (1992) to explore this point. The study reviewed the mechanisms used by high-growth firms and the contrast found with other firms. He comments that:

“The researchers were struck by the frequency with which fast-growth firms built upon an established product base primarily by identifying new markets for existing products for existing customers. This involved the identification and movement into an important and profitable market niche, and underlines the importance of market positioning”.

The identification of new markets would suggest an intelligent application of Scanning, Decoding and Testing.

Watson (1994) adds to this idea by suggesting that “Managers do not simply react to the environment but act in the light of their perceptions of it”. It is plausible to assume that if any adjustment is made vis-à-vis the environment then the process of arriving at it will have been by Scanning, Decoding and Testing the cues and signals against the perceptions.

The exploration of the make-up of the Scanning process clarified how the small business owner applies Decoding and Testing: that is, from where specifically the small business owner accumulates the signals and cues. It is now necessary to explore where the result of the Scanning, Decoding and Testing process goes.

What is apparent from the research is that any learning emanating from the Scanning, Decoding and Testing process is not transferred into the Strategy Planning process. For generally Strategy Planning does not exist within these sectors. Much of the reason for the small business owners’ indifference to Strategy Planning can be summed up by Swieringa & Wierdsma (1992):

“Changes are coming faster and faster, so fast that there is hardly enough time to establish first direction and destination precisely. By the time the blueprint of the desired situation has been planned, the environment has already changed”,

or Gibb & Davies (1990) who believe it is due to the pressure on small business owners' managerial time and resources which constrain them from planning proactively and push them into making "reactive responses to the marketplace".

Any data derived from the Scanning, Decoding and Testing process becomes part of the small business owner's repertoire of behaviours in taking action on a short term basis, if not day-to-day, rather than becoming part of some thought-through scheme or plan for the business. Hay (1992) found in his pilot study that "the focus of managerial attention is on internal rather than external events. Priority is given to what is happening inside the organisation". One result, he claims, is clear "the reactive, operational bias of management narrows its strategic vision".

It is evident, however, that goals are very important to the small business owner. But how to achieve them has to be in a flexible and, in many cases, reactive manner.

As Goffee & Scase (1995) comment:

"The outcome is for professional-based small businesses to be reactive to market demands, rather than to have explicit business strategies derived from detailed analyses of market forecasts and longer-term economic trends. Only after significant growth is it usually possible for such businesses to devote the resources necessary for strategic planning".

It has been referred to several times earlier that success or failure of the small firm depends upon its responses to the environment. This is a function of the goals aimed for: thus survival is related to management goals - Lace (1993) citing North (1991). Goals, he argues, are a precursor to the process of planning which in its turn is a key component for the firm in dynamic situations.

The findings of this research would support the notion of goals acting as the forerunner to planning; and argue that planning is not an important factor in the life of the small business owner.

The attitude the small business owners hold toward planning is that it is a useful tool at the work level, i.e. planning out a particular project or task for the client, but not for planning the future of the business. As Storey (1994) says: “Formal planning procedures and their monitoring appears to be more characteristic of larger businesses”. And he suggests that there is no evidence to show planning influences performance. He also cites Nayak & Greenfield (1994) who demonstrated “that business planning is almost wholly absent from the UK micro-business sector”.

At a conceptual level it is a simple step to consider Strategy Planning as the repository of the Scanning, Decoding and Testing process; at the reality level the research shows it is not a relevant part of this process. What appears in the research is that the Learning-Decoding Approach assists the small business owner to move, in an ad hoc manner, to the goal(s) desired; but not in any planned manner. This is what emergent planning means for the small business owner.

This finds resonance in the work of Mintzberg (1991,1987) in terms of his metaphor on crafting a strategy. Which is picked up by Whittington (1993) who paraphrases it thus:

“In a world too complex and full of surprises to predict, the strategist needs to retain closeness, the awareness and the adaptability of the craftsperson, rather than indulging in the hubris of grand long-range planning. For Mintzberg, crafting strategy is a continuous and adaptive process, with formation and implementation inextricably entangled”.

By linking this view to the research which identifies small business owners as being goal focused, if not planning focused, Whittington (1993) still referring to the work of Mintzberg (1987) comments that:

“Strategies are often ‘emergent’, their coherence accruing through action and perceived in retrospect”,

or as Mintzberg (1979) himself defines it “a pattern in a stream of decisions”; or Quinn (1991) “logical incrementalism” or Watson (1994) “we can conceptualise an

organisation's strategy as *the pattern to be seen emerging over time as actions are taken to enable the organisation to continue into the future*".

In fact, in line with the learning element within Decoding and Testing any fixed process of strategic planning would inhibit this happening. "Purely deliberate strategy precludes learning once the strategy is formulated; emergent strategy fosters it". Mintzberg (1991).

Wilson (1992) citing Etzioni (1984) reinforces this point by suggesting innovation and creativity are constrained by strategic planning:

"A range of products and services emerges, but they are characterised by their similarity to what went before."

In contrast to the findings of the thesis and literature reviewed above, Joyce et al (1994) argue cogently that small businesses need to plan and "..... should plan formally and should plan long-term" not just around products and markets but technology and training also. Their belief is that it will spur the entrepreneurial motivation instincts. They perceive it is "an aid to innovation in business processes making use of new technology and training to raise productivity levels". Besides being an aid in assessing overall performance. They produced a taxonomy of planning roles from Strategic Planners, to Short-Term Planners, to Informal Strategists and finally to Evolutionists. See Figure 7 below:

Figure 7: **Joyce et al Taxonomy of Planning Roles**

- | | | |
|---------------------|---|--|
| Strategic Planner | - | produces "written or formal business plans and attempts to plan at least three years ahead" |
| Short-Term Planner | - | writes business plans which deal only with the present or the next year or two |
| Informal Strategist | - | informally plans three years ahead (i.e. "they do not produce a formal business plan as such") |
| Evolutionist | - | lacks any formal or written plans and has "a planning horizon of 2 years or less (including businesses which claim no planning ahead at all)". |

Their study revealed that Strategic Planners were 3 times more likely than Evolutionists to have healthy and growing enterprises.

The results of the research are analysed below according to the definitions suggested by the work of Joyce et al (1994).

Table 70: Analysis by Sector - using Joyce et al definitions

Management Consulting Sector

Strategic Planner	Short-term Planner	Informal Strategist	Evolutionist	Total
-	8	-	17	25

Marketing Consulting Sector

Strategic Planner	Short-term Planner	Informal Strategist	Evolutionist	Total
-	2	-	23	25

Table 70 shows that some firms - 8 Management and 2 Marketing are Short Term Planners only whilst the remainder are Evolutionists and are hardly influenced by their plans. This identifies that within the:

Management Consulting Sector	Evolutionists represent	68%
	Short Term Planners	32%
Marketing Consulting Sector	Evolutionists represent	92%
	Short Term Planners	8%

Thus there is evidence that signifies a difference between the sectors:

Chi-sq. 4.5, $p = < .05$.

In summary, the data signifies that a size and sector difference, but no gender difference, exists: larger firms are more involved in Short Term Planning than micro firms, which are predominantly Evolutionists, (see table 71). This matches with Joyce et al (1994) study which showed most firms to be Evolutionists: “In the case of the Central London sample of very small businesses, formal or written business plans were by no means universal and long-term planning was not typical. The Evolutionist style of management was the most common of the four types identified here and less than one in four were Strategic Planners”.

It seems all firms refuse to be hidebound by the planning process. They tend to have thought through their goals and then are prepared to let the plans emerge over the course of the year.

What Joyce & Woods (1996) refer to as the “passive-learner” style. These owner-managers enter the process when patterns are formulating and learning is available. As they remark “..... learning is conceptualized as ‘pattern recognition’ and thus learning is about discovering strategies rather than actively creating them”. Joyce & Woods (1996).

Table 71: Analysis by Size - using Joyce et al definitions

Size	Strategic Planner	Short-term Planner	Informal Strategist	Evolutionist	Total
10-25	-	6	-	4	10
2-9	-	4	-	16	20
Micro	-	-	-	20	20

Table 71 shows 60% of the larger firms (6) are involved in short-term planning; but as firms become smaller the trend increases in intensity toward the Evolutionist state; micro firms are identified as having a strong commitment to it. And the difference in size is significant: Chi-sq 15, $p = < .05$.

Table 72: Analysis by Gender - using Joyce et al definitions

	Strategic Planner	Short-term Planner	Informal Strategist	Evolutionist	Total
Male	-	8 (21.1%)	-	30 (78.9%)	38 (100%)
Female	-	2 (16.7%)	-	10 (83.3%)	12 (100%)

No significant differences prevail between the genders. The primary tendency is to be an Evolutionist. Chi-sq 0.1022, $p = > .05$.

Joyce et al (1994) perceive the managerial mood moving back during the 1990s to a re-acceptance of the “intellectual processes as a key aspect of strategic management” and away from “the chaos paradigm” which reflected the 1980s. They refer to the emergence of process re-engineering as evidence of this new mood. However, this move to rationality is taken to task by Watson (1993) who says organisations do not “settle into a rationally planned tightly-integrated and formalised system”.

He continues by commenting that:

“Organisation theory has been moving realistically and healthily away from what I have called the myth of the rational, neutral, hierarchical, goal-seeking system towards a recognition that all organisations are permeated with conflicts, ambiguities and diverse purposes”.

He posits that this holds for both small and large firms “led by a single entrepreneur or administered by a qualified management team”.

The move to rationality and away from values and beliefs appears unconvincing in the light of this research and the last word on the topic will remain with Mintzberg (1994):

“Planning, plans, and planners are likely to meet considerable resistance in the entrepreneurial form of organisations, which relies on a very different means for coordination and control. Here, in the idealized version, at least, everything revolves around the chief executive; that person controls activities

personally, through direct supervision”.

4. **Conclusion**

The research shows Scanning, Decoding and Testing are considered to be key components in the small business owner’s drive for commercial success but are focused mainly on the client base and less on a wider context.

Further data from the research shows that the Learning-Decoding Approach, which was built up from the findings on Scanning, Decoding and Testing, and takes into account the result of the small business owner’s readiness to be open to changing or confirming Mental Models and Assumptions which when aligned with a capability for Scanning permits the Decoding and Testing process to be employed beneficially. Evidence is offered to show Scanning is selective and has a disproportionate influence on commercial success simply by restricting the scope and range available to Decoding and Testing. The preparedness to be open to changing Mental Models & Assumptions revealed no sector, size nor gender differences.

The Learning-Decoding Approach model was shown to possess a number of immediate benefits for helping owner-managers learn to learn; and for advisers to provide them with assistance. Several possibilities were presented for its future development; from adding to the component parts of the model to expanding its use across other sectors.

A number of themes in the research were discussed and these, together with the Learning-Decoding Approach model, were linked into the literature.

Learning in the Learning-Decoding Approach is a function of Decoding and Testing and is a learned skill which provides the small business owner with informed choice. However, Testing contains within it both a higher and lower order process. The higher order is termed Double Loop Learning; the lower order is termed Single Loop Learning. The difference between them is in what they test. For instance, Double Loop Learning tests the underlying assumptions and theories in use; whilst Single

Loop Learning detects and corrects errors with the intention of maintaining the status quo, that is, it does not question the Mental Models and Assumptions.

This inability to inquire into underlying assumptions is seen as a 'blindness' or 'defensive reasoning' which hinders the small business owner from confronting reality or protects him/her from feeling vulnerable. The paradox is the outcome frequently does increase vulnerability.

One of the reasons behind the use of Single Loop Learning is that the small business owner may be confronted with having to unlearn behaviours before there is an opportunity to move forward. And this could be too threatening.

It was found that Scanning is performed mainly through three activities:

- (1) contact with the client;
- (2) reading the relevant literature;
- (3) networking;

No evidence was found to show that females use the four factors more than their male counterparts. All believe its component parts are important factors in commercial success.

The role played by Strategy Planning is modest; it is not part of the Learning-Decoding Approach. It is not considered an important tool for overcoming barriers to growth: nevertheless it has a place at the task level and it is used primarily as a project-based tool. Those that engage in it for planning the future use it only as a guide ; most firms fall into the range of permitting strategy planning to have a "loose influence" to no influence at all.

CHAPTER 11: CONCLUSIONS AND RECOMMENDATIONS **FOR FUTURE WORK**

1. Introduction

This thesis investigated a process by which owner-managers can learn to learn how to overcome barriers to growth. A hypothesis was developed and subsequently researched in the thesis and has been titled the Learning-Decoding Approach. It suggests that if an owner-manager has a predisposition to, and skills in, Scanning the environment for signals and clues, and Decoding or interpreting the signals and then Testing them against his/her Mental Models and Assumptions, these agents can enhance the possibility of commercial success. Further, the data resulting from this overall process will be employed to design plans that emerge over time rather than be used to configure strategic plans over one to several years.

This hypothesis was drawn from a literature review of the factors which inhibit small business growth and also the organisation design literature. The purpose of this was to gain insights into small firms through the application of knowledge developed in the large organisation literature.

It was felt this was achieved because the hypothesis developed for owner-managers came out of the work produced on, and was adapted from, large organisations. For instance, the notion of environmental scanning came from Open systems, Population Ecology, Networks, and Institutionalism; Mental Models and Assumptions and Openness came from the work produced on Learning organisations; Strategy Planning from the ideas produced on emergent planning. It is this link between the large and small organisation literature which has not been robustly cultivated by researchers yet it could provide a rich source of productivity.

Data was collected first in a Pilot Study to confirm the relevance of the hypothesis and test out the type of questions to be used. Five firms were reviewed: a small commuter belt Building Society (24 employees); a Venture Capital Company in the City (13 employees); a small Merseyside Engineering Company (15 employees); and two Marketing Companies (12 employees and 6 employees respectively).

The second step was to develop the structured questionnaire and interview questionnaire and undertake the research.

This involved a nine month period of field research which encompassed 50 firms of knowledge workers in two sectors: Management Consulting and Marketing Consulting. Each sector was sub-divided into 3 firm sizes comprising: 5 firms of 10-25 employees; 10 firms of 2-9 employees; and 10 micro firms.

It was a long task, but not a difficult one, to locate the most appropriate owner-managers for the research. The indexes of consultants held by various official agencies were sampled, such as, the Institute of Directors, the Association of Management Education and Development, and the Institute of Marketing; and the owner-managers were contacted by telephone, followed by a letter. There were two reasons why it was not a difficult task: first, the subject matter intrigued them. This may augur well for increasing their awareness of the Learning-Decoding Approach model. Second, they were used to the interviewing process as part of their daily lives and so did not feel uncomfortable in the opposite role of interviewee.

The research data indicates that the hypothesis has not been fully met. A gap exists between beliefs and behaviours. In other words, owner-managers perceive Scanning, Decoding and Testing as key drivers for delivering commercial success, but are not sufficiently energised to build skills in them.

The research also highlights a number of similarities and some differences between sectors, firm sizes and genders. These, and the hypothesis, will be discussed in sections 2 and 3 respectively.

It describes, also, a number of themes which address whether Scanning, Decoding, Testing and Strategy Planning are formal or informal pursuits; whether they can be learned; whether gender is significant; where the primary focus for Scanning occurs; the types of planning engaged in; and the biggest problems faced by owner-managers. These will be discussed in section 4.

Further, the research helped a tentative Learning-Decoding Approach model to be developed. Its aim is to help owner-managers increase their awareness of the need to practise Scanning, Decoding and Testing. The implications stemming from it will be discussed later in the chapter in section 5.

Section 6, in this chapter, draws out some points from the research which could be useful to advisers to small firms. And section 7 summarises the results

Finally, some future areas for research are identified. in section 8.

The main conclusion drawn from the thesis is that Scanning, Decoding and Testing are considered valued activities which promote commercial success but a gap between attitude and action exists. In contrast, Strategy Planning is not considered a useful activity and is substituted by emerging planning into which feeds Scanning, Decoding and Testing.

2. The Hypothesis

The hypothesis developed and subsequently researched in the thesis has been titled the Learning-Decoding Approach. The Learning-Decoding Approach consists of three factors that suggest owner-managers will learn to learn to overcome barriers to growth if:

- (1) they consciously scan the environment for signals and cues;
- (2) they expend energy and time Decoding or processing signals and cues emitted by the environment;
- (3) they consciously make a comparison, or Test them against Mental Models and Assumptions and update these mental constructs.

A fourth factor suggests that the data from these processes will be employed to design plans that emerge over time rather than be used to develop strategic plans.

For in contrast to Scanning, Decoding and Testing, Strategy Planning is not considered a core activity, nor does it play a key role in commercial success; although planning at

the client level is a valued tool. In other words, operational planning rather than business planning is where emphasis is laid.

Further, if learning is to occur from this process of Scanning, Decoding and Testing it was found that there must be a preparedness on the part of the owner-manager to be open to the notion of modifying or confirming any Mental Models or Assumptions held. For it is these models and assumptions which form the basis of the governance of the firm. However, the main conclusion of the data has shown that the aims of the research are only partly met. Owner-managers overwhelmingly perceive that Scanning, Decoding and Testing have an influential impact upon commercial success but they are not convinced of the need to build high levels of skills in them.

The results of data from the structured questionnaire were converted into tables and statistically tested using Chi square tests; the results of the owner-managers' self-ratings on their effectiveness at carrying out the four activities of Scanning, Decoding, Testing and Strategy Planning were statistically analysed using t tests.

The research demonstrated that Scanning, Decoding and Testing are factors which help overcome the barriers to growth. They fit under 'market adjustments' part of Storey's (1994) categorisation of factors which influence growth. The implication is that to effectively adjust to market changes requires efficient Scanning, Decoding and Testing, Watson (1994).

The results of the research on Strategy Planning were compared with Joyce & Woods (1994) Taxonomy of Planning Roles, which they describe as

- 'Strategic Planner' - formal planning of 3 years or more ahead
- 'Short-Term Planner' - plans which cover the current period or next year or two
- 'Informal Strategist' - informal plans of 3 years
- 'Evolutionist' - no plans or informal plans covering 2 or less years

The findings demonstrated that the majority of owner-managers were Evolutionists and the remainder were Short-Term Planners. The assumption is that learning is 'passive', Joyce & Woods (1996); and the implication is that the creation of emerging plans, Mintzberg (1991), Watson (1994) requires Scanning, Decoding and Testing to occur and to feed its data into the planning process.

3. Similarities and Differences

The findings in the research produced many similarities and some differences between sectors and sizes. No gender differences were evidenced.

This section of the chapter will concentrate upon presenting how these findings were analysed followed by a discussion of the meanings which can be attached to the differences; then it will explain why so few differences were found.

By using Hofstede's (1991) 6 dimensions of organisation culture it was possible to describe why and how culture can explain both the similarities and differences between the sectors; and why the cultures are different but closely aligned.

Hofstede's dimensions are descriptions of work practices presented in a bi-polar format, namely: process oriented versus results oriented; parochial versus professional; loose control versus tight control; normative versus pragmatic; employee oriented versus job oriented; and open system versus closed system.

It was possible to loosely group the various activities performed by the owner-managers and locate their sectors along each of the dimensions. Where similar activities existed both sectors occupied the same position; where differences prevailed the positions were different.

Although these positions were subjective approximations it was felt the outcome provided a plausible explanation.

A discussion of the differences follows; then the reasons are presented behind the high degree of similarity.

Managing growth and acquiring new business were the biggest problems confronted by the owner-managers. But why was a difference apparent between the sectors and the sizes? The Marketing Consulting Sector receive less signals (intermittent signals) and perceive their biggest problem as acquiring new business. The Management Consulting Sector receive regular and ongoing signals and their biggest problem is in managing growth.

It was felt that the frequency of signals coming to owner-managers from their scanning activity could impact the process of acquiring new business. If the signals were intermittent then the opportunity for prospecting could be impaired. Further, micro firms, almost by definition, have a smaller client area to service, receive signals which are of an intermittent consistency and are less numerous. These intensify the problem of acquiring new business.

Also, evidence points to a difference in focus. Much of the Marketing Consulting focus is external. Its aim is to solve problems at the interface between the client and the marketplace. Whereas Management Consulting delivers service primarily within the client base; that is performs it in the daily life of the firm. This permits a wider area in which to prospect for business.

The few Marketing firms which had recognised this dilemma had put in place an integrating mechanism to resolve it, such as appointing telephone agencies to prospect on their behalf. The implication is that if integrating mechanisms are not implemented between the firm and its potential business prospects the situation will remain fraught with tension.

The differences between size illuminate the issues a firm faces of growing from one size to the next: two have just been described. Another, product specialism, is one difference between the large firms and the micro firms. The latter are strongly

identified with product specialism. For the micro firm is predominantly an extension of the owner-managers' skill set or specialism. Further, if it delivers, what has been termed earlier, a 'soft', unconventional, non-demand led product this can intensify the problem of getting new business. This is supported by the findings that small firms are more likely than larger firms to have only a single product line and a single customer (Cambridge Small Business Research Centre, 1992). This suggests that networking could be a key activity for keeping in business. Interestingly, micro firms are the predominant users of this process: the other firm sizes use it much more sparingly. This is supported by Curran et al (1993) who remark that networks are not widely used.

Scanning effectiveness differentiates the sizes. The micro firms reveal a much poorer record than the other sizes, due to a lack of skill and energy to match their behaviour to their attitude. Yet commercial success is partially predicated upon scanning. Indeed, Goffee & Scase (1995) argue the importance of scanning as a way of utilising the advantages of flexibility inherent in small businesses. This implies that growth will be retarded unless the gap is closed between what they espouse and what they practise.

The role played by Strategy Planning is a modest one; it is not part of the Learning-Decoding Approach. For many firms it has no worthwhile role to play in producing commercial success. Any planning undertaken at the business level does not engender loyalty from the owner-manager. Plans will be cast aside for opportunism. Nevertheless, it has a place at the task level. Evidence exists that a distinction is made between business and operational level planning; the latter is followed enthusiastically, that is, owner-managers use planning to deliver projects to the client base.

Finally, it was found that the development of thought-out plans for the firm was undertaken by the large firm size but not the micro firms and indicated a transition from laissez-faire to new modernism. Joyce & Woods (1996).

Micro firms have a significant number (65%) which subscribe to the notion that planning is useful: however, they do not engage in it. Very little evidence existed that they have any thought-out plans in place. In fact Storey (1994) suggests that no evidence exists to show performance is enhanced by planning; Goffee & Scase (1995) comment that professional based small firms are reactive and only allocate the necessary resources to strategic planning after considerable growth has taken place.

The question was then asked why were there so many similarities and so few differences evidenced in the research? Four factors were found which contribute to this issue: the acculturation process; paradigm shifts; competing discourses; and possible methodological flaws.

Often owner-managers were acculturated in a similar manner by undergoing occupational socialisation in similar knowledge-intensive industries. As Hofstede et al (1990), citing Pascale (1985), state:

“Organisational practices are learned through socialisation at the workplace”.

For instance, most of the respondents held management or consulting roles in earlier careers which invariably began as employees in large organisations. When they began their self-employed careers their first clients were often the firms from which they had resigned. This suggests that the culture and norms of small consulting firms are influenced by the larger organisations. Small firms cannot be different in the manner in which they function otherwise they do not match the expectations of the client base. This is borne out by the data which identified that Scanning was focused on the client base. The small firm is constantly checking for signals and clues about how to match its service to the expectations of the client.

The celebration by owner-managers of emergent planning over the setting of formal strategic plans could be reflected in the 1980s culture-driven paradigm, which rejected those which previously supported collective responses to organisational issues in favour of the individual, flexibility and self-fulfilment. Plans developed through an

emerging process of sensing patterns and responding to them fits extremely well into this paradigm.

Management paradigms have been shown to move and change. The decades of the 1960s/70s were dominated by various imperatives which altered in the 1980s to one of culture and values; the 1990s is providing evidence of another move, this time, to an ecological paradigm, Reed (1996).

Competing discourses explained why a contrast existed between the view that Scanning, Decoding and Testing were influential tools for commercial success but were not energetically used. For instance, it appeared that owner-managers could intellectually agree with Scanning, Decoding and Testing, and Strategy Planning. They could see the need to perform them in a more systematic manner yet they were reluctant to commit time and resources to ensure it happened. It indicated a common view which highlighted the contrast between the intellectual acceptance of the four factors and the process of actually undertaking them. The different 'stories' suggested that they were competing discourses attempting to order reality, Law (1994).

Finally, it was posited that the research might have been flawed. If a third sector had been included more diverse and contrasting findings might have been produced.

4. Themes

Five themes ran through the research and they illuminated a number of factors.

The first theme identified the centrality of the client in the owner-manager's world. This supports the finding that the customer is a key influence upon the small business owner, Joyce et al (1995).

Theme 2 demonstrated that the degree of learning is based upon the owner-manager's skill at Decoding and Testing and the inclination to be open to changing mental models and assumptions. These are learned skills and act as prompts to action. Nonetheless,

a belief in the factors in the hypothesis does not mean, necessarily, that it transforms itself into action. Evidence was found that owner-managers can ignore the messages they receive, referred to as 'blindness' by Swieringa & Wierdsma (1992) and 'defensive reasoning' by Argyris (1991). The best results from these two activities were to be found when the owner-manager was open, that is, was prepared to place the Decoded data against his/her Mental Models and Assumptions and, if required, modify them. Senge (1990). The question raised is how to convince or encourage the owner-managers to close the gap. A mechanism such as the Learning-Decoding Approach model could be a first step in raising awareness.

Theme 3 indicated that owner-managers engage in two types of planning: emergent and operational - project or task level - planning. Goal setting, Lace (1993), and the use of emergent planning are favoured above other planning methods, Mintzberg (1991, 1987), Quinn (1991), Watson (1994). More stringent planning methods are focused on the delivery of service and projects not on depicting the future. The overriding need of all owner-managers in the research was to remain flexible and open to opportunities as they arise. Naturally, this can deteriorate into a laissez-faire attitude where little energy is put into prospecting and where owner-managers do not make their own opportunities.

Theme 4 identified that managing growth and acquiring new business were the biggest problems confronting owner-managers. It demonstrated that they are dependent upon the consistency of signals received, and the size of the owner-manager's portfolio of clients, which in turn, is based upon the size of the firm and type of work. The latter can prevent the firm from keeping close to the client. For instance, the research demonstrated that sectors differ in the frequency of signals they receive: the Management Sector receive regular and on-going ones; the Marketing Sector receive intermittent ones. This makes it more difficult for the Marketing Consulting Sector to get business because they are more project driven and face outwards from the client rather than inwards into the internal client environment.

Finally, the fifth theme demonstrated a lack of formalisation in carrying out the four activities. This could encourage the gap between belief and behaviour to widen. It suggests that Scanning, Decoding and Testing will not bring about significant commercial success or overcome barriers to growth without owner-managers changing their behaviours or 'unlearning old behaviours', Swieringa & Wierdsma (1992). A need exists for the level of awareness to be increased. Owner-managers will need to be encouraged by appropriate educational-designed interventions. Nonetheless, there is scope for optimism as most owner-managers self-rated themselves at over 5 for Scanning (60%) and Decoding and Testing (75%) respectively, and revealed that they need to become more accomplished at them but lack systems for doing it. The Learning-Decoding Approach model may offer them such a system. Thus if effective Scanning, Decoding and Testing become more commonplace it will lead to more sophisticated owner-managers and lead to more successful businesses.

5. A Learning-Decoding Model of Small Business

It was shown that the Learning-Decoding Approach comprises Scanning, Decoding and Testing. The environment must be understood if an organisation is to become an open learning system, as it must, suggest Pettigrew & Whipp (1991). To understand the environment an owner-manager must scan it effectively which, in turn, will start him/her on the endless journey of learning.

This led to the development of a model from data in the Pilot Study and main research which attempted to depict the degree of learning taking place and to represent the first step in learning how to overcome barriers to growth. This is signified by the position a firm or owner-manager is accorded on the bi-polar spectrums incorporated within the Learning-Decoding Approach model.

What gives added vigour to the Learning-Decoding Approach is the readiness of the owner-manager to be open to changing or modifying his/her Mental Models and Assumptions. If this is the case, and if it is aligned with the Scanning process, then the Decoding and Testing processes become more potent.

This led to the development of two of the three bi-polar spectrums within the model - "Application Effectiveness" and "Openness Attitude".

Learning stems, primarily, from the Decoding and Testing activities because they influence the decision-making process by providing the small business owner with choices based upon valid information.

However, the Testing activity comprises two levels of learning; a lower and higher order process, termed Single Loop Learning, and Double Loop Learning, Argyris & Schon (1977), Argyris (1993, 1992, 1991, 1990), Senge (1990).

The difference between the two is in what they test. For instance, Double Loop Learning tests the underlying assumptions and theories in use; whilst Single Loop Learning detects and corrects errors with the intention of maintaining the status quo, that is, it does not question the Mental Models and Assumptions.

This inability to inquire into underlying assumptions can affect the reasoning capability of the owner-manager, Argyris (1991). This hinders the small business owner from confronting reality or protects him/her from feeling vulnerable. The paradox is the outcome of this protective veil frequently does increase vulnerability.

First order learning can be caused by anti-learning mechanisms, i.e. analysis which is self-defeating and self-sealing because of the refusal to question what governs the Mental Models and Assumptions underpinning the management style of the firm. If this is the case progress will be constrained.

A further reason behind Single Loop Learning is small business owners may be confronted with having to unlearn behaviours before there is an opportunity to move forward. And this could be too threatening. Nonetheless, this type of learning or decision-making is necessary and useful for the more mundane tasks of the firm.

Frequently, it is not necessary to change the Mental Models and Assumptions underlying them; and any action strategies used previously will still apply. The difference between these two ways of using Single Loop Learning is one of Openness.

In the first case, the small business owner is not prepared to face reality (lacks Openness) and is therefore blinkered as to what the data means; the second type of Single Loop Learning is a decision taken to maintain the status quo but has been based upon relevant data.

Double loop or second order learning helps the manager to review those variables which govern the basis of the decision-making and action process, what Argyris (1993) refers to as the master programme. This demands from the small business owner an Openness to the data and a readiness to change or modify the Mental Models and Assumptions which form part of the master programme.

This led to the development of the third, and final, bi-polar spectrum "Learning".

If the three spectrums are put together then the Learning-Decoding Approach model is produced. To use the model owner-managers must determine how effective they are at Scanning, Decoding and Testing and place themselves on each spectrum; that is, towards the 'poor' or 'excellent' ends of the "Application Effectiveness" spectrum; then towards the 'closed' or 'open' ends of the "Openness Attitude" spectrum, by determining whether their disposition is towards being open or not to changing assumptions and mental models. These scores then feed into the third spectrum, degree of 'Learning', and the owner-manager or firm is positioned towards the 'little learning' or 'continuous learning' ends of the model.

By using this type of pragmatic assessment of their skill at learning to learn, owner-managers may begin to increase their awareness of the need to overcome their reticence towards increasing these skills of Scanning, Decoding and Testing.

The data on Strategy Planning was analysed using Joyce et al (1994) Taxonomy of Planning Roles, i.e. strategic planner, short-term planner, informal strategist, evolutionist.

The results identified a size difference. The larger firms engaged in short-term planning (writing business plans which deal with the present or the next year or two); whereas micro firms were evolutionists (lacking any formal or written plan and having planning horizons of two or less years, this definition incorporates businesses which do not engage in any planning whatsoever).

Further, the results indicated that the owner-managers in the research were passive-learners, that is, they did not actively pursue the role of designing strategies for their firms, rather, they let them emerge. Joyce & Woods (1996).

This part of the research satisfied the hypothesis: that the data from the Scanning, Decoding and Testing processes will be employed to design plans that emerge over time rather than be used to configure strategic plans over one to several years.

6. Summary

The research data identified Scanning, Decoding and Testing as crucial activities which influence a firm's commercial success. Competencies in these roles can act as an engine for overcoming barriers to growth but are only partially performed by owner-managers. This suggested that the tentative hypothesis under research had only been partly met. The fourth factor, Strategy Planning, has a very secondary role in small firm thinking; energy is given to planning at the client base and letting plans emerge at the business level. It was felt that this part of the hypothesis was satisfied by the research.

The findings identified a number of similarities and differences in the research. A culture explanation was offered for the causes of similarities and differences. The causes behind the high degree of similarity in the research were demonstrated to be the acculturation process, management paradigms, and competing discourses.

Methodological flaws were also considered. The notion of single and double-loop learning was introduced to help characterise the Decoding and Testing activities.

Five themes were identified in the research:, such as: the key role of the client; learning as a function of Decoding and Testing; emergent planning as the preferred process; the two contrasting problems faced by owner-managers; and the lack of a systematic approach to the four factors. Some implications were drawn which overlap with those presented for the similarities.

Finally, the findings have helped to produce a tentative Learning-Decoding Approach model in the form of a learning spectrum. This measures how effectively learning is applied, by linking it to a measure of attitude toward openness and an indication of application effectiveness: both of which feed into the learning spectrum and present the opportunity to understand the gap to be closed if barriers to growth are to be brought down. Further, it offers advisers to small firms new areas in which to develop tools for making it possible.

7. Implication of the Findings for Advisers to Small Firms

The Learning-Decoding Approach has several implications for the advisers of small business owners.

The core of the small business owner's style of management are the Mental Models and Assumptions. These drive the style used and the search for goals and their achievement.

Mental Models and Assumptions are derived in the first instance from the Scanning of environmental signals and the Decoding process. It is possible for this process to either fall into disuse or to become an active part of the small business owners' repertoire.

This suggests that the helping agencies should be encouraged to develop programmes to train and develop advisers in the Learning-Decoding Approach; so they in their turn

can help the small business owner determine what signals and cues to look for and how to look for them (Scanning); how to assimilate the data (Decode); how to overcome 'defensive reasoning' or 'blindness' to the data (Test) and develop "the discipline of managing Mental Models", Senge (1990).

As the Learning-Decoding Approach lends itself to an interactive personal approach not a classroom one because of the unique data that would be derived from discussing Mental Models and Assumptions; any help will be better given by advisers, and received by small business owners if it is carried out in a one-to-one manner or in very small groups. As a learning/teaching tool it lends itself more readily to the counselling, coaching, facilitating mode rather than a teaching one. This may go some way to combat the problem of ineffective management training currently raised by Stanworth & Gray (1991), Goss & Jones (1992), Jennings & Banfield (1993).

By placing the emphasis on training the adviser instead of the small business owner; and giving them the tools (the Learning-Decoding Approach) to influence and facilitate the learning and development of the small business owner, it is considered that this will go some way to overcoming the resistance put up by small business owners to formal training workshops.

It would provide the adviser with a powerful tool for helping the small business owner to focus on him/herself. If handled professionally it would lead to the small business owner questioning the basis of his/her management style; and become a significant force for overcoming the barriers to growth.

8. Areas for Further Research

The Learning-Decoding Approach framework has shown its relevance across two knowledge worker sectors: Management Consulting and Marketing Consulting. Fifty firms were researched (twenty-five from each sector); and 38 males and 12 females were interviewed.

It raises the opportunity for further research into its usefulness across other sectors, as it seems plausible to assume that the Learning-Decoding Approach would be beneficial for larger sized firms of knowledge workers (26-100 employees). But the question raised is whether the findings of the research apply to all self-employed knowledge workers providing service, such as lawyers, accountants, insurance brokers or surveyors, and so on. It is felt that if the study was replicated for these types of workers similar results would be reproduced. Whether the study can be generalised to groups of non-professionals operating in an unsophisticated marketplace is less clear.

Further, the possibility exists to examine whether it could be applied as a means to measure and compare the learning rates of groups of firms; and thus, where helping interventions could be made. Particularly at the earlier phases in the lives of firms when they are most vulnerable.

These are relatively novel areas to research and the gap between belief in the factors and behaviour at applying them would suggest it is important to refine the Learning-Decoding Approach model with further research into its mechanisms. For instance, should another spectrum be included, namely Strategy Planning, which would provide a more structured feedback loop into the other spectrums?

Future research should investigate whether Mental Models and Assumptions become larger or more sophisticated as the size of the firm increases; or whether there are categories of Mental Models; or whether they are unique for each small business owner; if the former was the case a formalised Testing process might be developed and taught?

If it is a generalisable issue that small business owners primarily scan their client base, an opportunity exists to research whether small business owners should be encouraged to scan the wider environment. And, if so, the role the helping agencies would have in this process.

The most appropriate method of undertaking work on these recommendations would be by face-to-face interviews in conjunction with a structured questionnaire. Diaries would be useful to supplement the data. With larger sized firms (50-100 employees) a longitudinal study could provide useful data.

If the way forward is to invest in companies that show potential for growth, Storey (1994, 1993), a key provision will be the development of pragmatic mechanisms to help owner-managers overcome the barriers which inhibit their growth. This would suggest that it is worthwhile and beneficial to focus further research on the development of models or approaches, such as the Learning-Decoding Approach. The aim would be to encourage owner-managers to make their behaviour congruent with their beliefs through becoming more skilled in the use of factors which affect their commercial success; and if accomplished could help to reduce or overcome their barriers to growth.

APPENDIX 1 - RESEARCH INTERVIEW QUESTIONNAIRE

SECTION 1:

INTRODUCTION

I would like to talk to you about your business; that is, how you go about understanding your business environment, interpreting information coming from it; making decisions about it; and what planning strategies you use to grow or maintain your business.

INTERVIEW No.

NAME OF COMPANY:

ADDRESS OF COMPANY:

.....

TELEPHONE No.

NAME OF RESPONDENT:

POSITION IN COMPANY:

HEADCOUNT:

DATE OF INTERVIEW:

SECTION 2:

BACKGROUND

Q1 When did you start this business?

Q2 How would you rate the success of your business?

- What tells you this?

Q3 What tells you that you are a small business? i.e. How would you define small business?

Q4 Are you aiming to grow the business or stay the same?

- if aiming to grow, what are the three things you will do in the next year to achieve this?

Q5 How would you define growth?

- how would you define a barrier to growth?

Q6 Why do you want your business to stay the same?

- are there any barriers to staying the same?
- why do you define them as barriers?

Q7 Who are your main customers?

Q8 Have you gained or lost any customers over the last 12 months?

Q9 How do you go about gaining new customers?

SECTION 3:

CRITICAL INCIDENTS

Q1 Have any critical incidents occurred during the last 2 years which have crucially affected your business? Can you talk me through them, i.e. what happened, how you coped?

- Gained or lost a major customer
- “ “ “ a partner/director
- Endured a crisis in your family which impacted the business or vice-versa, moved house, baby, etc.
- Bought a major asset for the business

- Suffered an increase in competition

Q2 What influence have they had on your views of business life?

SECTION 4:

ENVIRONMENTAL SCANNING

Q1 How would you define your business environment?

Q2 Are you aware of any signals you could be getting?

- will they impact your business +/-ely?

are they clear, weak, confused?

Q3 What are their frequency?

- what % are crucial? i.e. if you ignore them then they will severely affect you
- what are they?
- can you (will you) do anything about them?

Q4 How would you describe changes in your market boundaries? i.e. fast no movement.

Q5 How would you describe the way you learn to run your business?

- by doing things; by reflecting/pondering about things
- thro' experience. If so, how do you distil out any lessons?

Q6 How would you describe the means thro' which you get signals?

- networking, formal associations, journals ?

- Q7 What effect do you believe scanning has on your commercial success?
- Q8 How much time do you/others spend in scanning vs. day-to-day operational problem solving?
- Q9 What is the biggest lesson you have learnt in business?
- Q10 How would others describe how you manage your business?
- Q11 How would you describe the biggest problem facing you today?
- Q12 What excites you most about the signals you are getting?
- Q13 What depresses you most about the signals you are getting?
- Q14 What are your competitors doing?
- do you benchmark different organisations?
 - do you think it is necessary?
- Q15 How well do you feel you scan the environment on a scale of
- | | |
|--------|-------------|
| 1 | 10 |
| Poorly | Excellently |
-

SECTION 5:

DECODING

- Q1 How would you describe the way you decode (interpret) signals you get?
- what process do you use, e.g. talking to others, comparing signals against your current view, etc.

- Q2 How effectively do you feel you interpret the environment?
- what tells you this?
- Q3 Over the last 2 years what signals/opportunities have you (un)successfully decoded?
- is it easier to do this alone/with others?
- Q4 What effect do you believe decoding causes to commercial success?
- Q5 Give examples of what you do with the data you've decoded?
- Q6 Have you decoded signals incorrectly, or missed any altogether?
- why, what happened?
- Q7 How would you describe your level of openness/energy to changing your views on the way you perceive business (mental models)?
- Q8 What are the key skills needed by small business owners?
- how do you acquire them?
- Q9 How well do you feel you interpret the signals on a scale of
- | | | |
|----------|--|-------------|
| <u>1</u> | | <u>10</u> |
| Poorly | | Excellently |
-

SECTION 6:

STRATEGY

- Q1 How would you describe your firm's core competences?
- Q2 What thought out plans do you have in place for the business?

- Q3** What part does a planned strategy have to play in your business?
- Q4** What part does luck play? - has it played a part in your business?
- is luck the same as opportunism?
- Q5** On what do you base your strategy?
- how do you develop your plans? (past + 10%)
- Q6** What do you believe the near future will be like for your business?
- Q7** Do you have an overall goal and just let plans emerge?
- do you see any patterns emerging?
- Q8** How would you describe a good/worthwhile strategy in your business?
- Q9** What are plus/minus points of just letting things happen, i.e. having no plans? - being opportunistic, laissez-faire.
- Q10** How do you acquire customers? - and keep them?
- Q11** How would you describe your investment strategy?
- Q12** What effect does strategy have on commercial success?
- Q13** How does your strategy come about?
- in a structured way; having a goal and letting it happen; seeing patterns and following them.

Q14 How well do you feel you plan for the future on a scale of

1 10
Poorly Excellently

SECTION 7:

MENTAL MODELS, ASSUMPTIONS

- Q1 Has your view of running your business altered over time?
- from what to what; is this a conscious process?
- Q2 How consciously do you question (test) the assumptions and views you hold? - i.e. spend time reflecting.
- Q3 Has there been any main pressures on you to changing your view?
- Q4 What do you believe are the bases of successfully running your business?
- Q5 What effect do you feel questioning (testing) has on commercial success?
- Q6 How do you learn about things; i.e. develop knowledge, skills, business acumen?
- Q7 How well do you feel you test out your assumptions on a scale of
- 1 10
Poorly Excellently
-

SECTION 8:

STATISTICS

1. Will your revenue increase, decrease, stay same, this year?

2. Will your profit increase, decrease, stay same, this year?
 3. What is % profit increase/decrease on sales for 1993/4/5?
 4. What are (1) and (2) due to?
 5. Over the last 3 months has demand/profits increased?
 6. How does this compare with the last 3 years?
-

SECTION 9:

QUESTIONNAIRE

Here are some statements, could you say whether you agree or disagree with them or neither agree nor disagree?

	Agree	Neutral	Disagree
1. It is a key business skill to be able to read the environment.		
2. You can plan your business in detail.		
3. The past is the best guide to the future when setting your plans.		
4. Luck in business is a big factor towards success.		
5. Understanding what is going on in the market-place is crucial.		
6. Keeping customers is more important than getting new ones.		
7. Business is primarily about satisfying your customer base.		

- 8. The best small business owners ask their customers for feedback about how satisfied they are with the service and/or product they receive.
- 9. Quality of product/service is more important than price.
- 10. Price of product/service is more important than quality.
- 11. Both are of equal importance.
- 12. To be successful you must have a goal.
- 13. To be successful you must have a view on how to achieve your goal.
- 14. A successful small business owner has a clear view about what constitutes a successful business.
- 15. Effective small business owners very rarely change their views about what makes a business successful.
- 16. It is not necessary to test your views and assumptions about what makes for success.
- 17. You should not change your business views.
- 18. Planning is a waste of time in today's small business environment.
- 19. Networking is an important factor in commercial success.
- 20. Plans should emerge over time rather than be set in concrete.
- 21. The key to planning is in seeing patterns emerge.
- 22. Interpreting the environment is a skill you are born with.

Agree Neutral Disagree

- 23. You can be taught how to interpret the signals you receive.
- 24. It is necessary to continually look outwards to pick up clues about what is happening to your business.
- 25. Seeking fast clear feedback from your customer base is the most important way of finding out what is going on in your business environment.
- 26. Interpreting messages from your business environment is a key skill.
- 27. Luck in business is not the same as opportunism.
- 28. Most small business owners can run successful businesses without spending any time scanning their business environments.

APPENDIX 2 : PILOT INTERVIEW QUESTIONNAIRE

Aim: To uncover how owner-managers learn and become aware of what they need to know and do to scan their environment for signals, and decode and test the signals; and whether the results are used for planning purposes

- (1) What are your views on growing your business (headcount etc.)?
- what views do you hold concerning obstacles to business growth?
- (2) Does anything tell you that you know what to do?
- (3) How do you know you are doing things right?
- (4) How would you know something was going wrong?
- (5) How do you believe you learn?
- (6) How appropriate is this for the future?
- if not: will you modify it; if so: how?
- (7) Does anything tell you that you do not know things?
- (8) Where do you go to find out?
- (9) How would you describe the degree of experimentation undertaken in your business, e.g. new products, styles?
- (10) How would you describe the current environment?
- (11) What views do you hold about scanning your business environment?
- how do you describe the way you scan your business environment?
- (12) What kind of signals do you get?
- faint, blurred, clear.
- (13) How would you describe the way you decode (interpret) them?
- (14) What is the biggest single factor which makes your business a success, mediocre, failure?
- (15) How would you describe the way you test your views & assumptions about running your business (i.e. Mental models)?
- (16) How would you describe the type of personality you need?
- (17) What attitudes do you need?
- (18) How would you describe the degree of future scenario scanning you do?
- If a lot: how do you do it and with what frequency?
- (19) What views do you hold on planning in your business?
- (20) How would you describe the ways of thinking needed for the future?

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