



Contents lists available at ScienceDirect

Journal of Business Research



Longevity in small business: The effect of maturity on strategic focus and business performance[☆]

William C. McDowell^{a,*}, Michael L. Harris^{b,1}, Patrick R. Geho^{a,2}

^a Middle Tennessee State University, USA

^b East Carolina University, USA

ARTICLE INFO

Article history:

Received 1 February 2015

Received in revised form 1 July 2015

Accepted 1 September 2015

Available online xxxx

Keywords:

Small business

Firm age

Strategy

Performance

ABSTRACT

Younger and older organizations approach strategic orientation differently. This research uses the theoretical approaches of organizational change, liability of newness, and liability of aging to examine younger and older organizations' approaches in the competitive arena with their varying competitive competencies. Results from a study of 141 small businesses suggest that an external strategic focus is associated with higher performance for younger firms, whereas an internal strategic focus is associated with higher performance for more mature firms.

© 2015 Elsevier Inc. All rights reserved.

1. Introduction

Although small businesses rarely start with direct competitive advantages, their flexibility to modify strategic choices depending on market conditions is already an advantage (Pelham, 1999). Small businesses generally have fewer resources and organizational structure. This lack of resources allows for decision-making and a more adaptive strategic planning. In addition, past research demonstrates the importance of strategy in small-business development and success (West & Noel, 2009; Wiklund & Shepherd, 2003).

New small-business owners must develop a customer base to ensure acceptance into the marketplace. However, as the firm grows, these owners must be willing to adapt their strategic choices to ensure survival against larger firms with greater resource allocation. This growth often leads to a strategic focus on internal factors to ensure operational efficiency and cost containment. The most successful small businesses are willing to adjust their strategic orientation according to current market conditions (Ensign, 2008).

This study seeks to examine the effect of strategic choices on small business' performance in different stages in firm development. As small businesses grow and mature, new challenges and opportunities

arise, which may lead to changes in strategic focus (Ensign, 2008). Past studies examine the link between strategy and small business performance (Harris, Gibson, & McDowell, 2014; Verreynne & Meyer, 2010) but additional research is necessary to understand the effect of time on business success and strategic choices, specifically in the areas of internal and external strategic focus. This knowledge can help researchers and policymakers to meet the needs of the small-business community throughout a firm's life cycle. In addition, more research is necessary to improve the understanding of small business survival because these businesses play a vital role in creating jobs and promoting innovation in the national economy.

2. Literature review

2.1. Strategic focus

Small businesses start with a finite set of resources that can help in creating a unique value proposition. These resources may include tangible assets such as land or equipment, and intangible items such as specialized knowledge, industry training, and efficient organizational processes. For small businesses, the availability of resources often depends on the talents and skills of the business owner. The resource-based view of the firm demonstrates that organizations are bundles of distinct, rare, and difficult-to-imitate resources that can provide competitive advantages for the firm (Barney, 1991; Wernerfelt, 1984). Bush, Greene, and Hart (2001) suggest that the intangible knowledge of a business owner is a key advantage for successful start-ups. To be successful, entrepreneurs must combine available resources with their unique skills and capabilities to create a competitive advantage.

[☆] The authors thank Professor Rachel Wilson, Belmont University, Professor Phillip Davis, East Carolina University, and the journal reviewers for their careful reading and suggestions.

* Corresponding author at: MTSU, Box 75, Murfreesboro, TN 37132, USA.

E-mail addresses: William.mcdowell@mtsu.edu (W.C. McDowell), harrismi@ecu.edu (M.L. Harris), pgeho@tsbdc.org (P.R. Geho).

¹ 3412 Bate, Greenville, NC 27858, USA.

² MTSU, Box 75, Murfreesboro, TN 37132, USA.

Research shows a linkage between resource availability, strategic orientation, and firm performance (Blackburn, Hart, & Wainwright, 2013). Business owners often have the most influence on strategic orientation in younger firms (Lumpkin, McKelvie, Gras, & Nelson, 2010). Wiklund and Shepherd (2003) find that strategic understanding is one of the most important factors in starting a new venture, and that experience can improve strategic decision-making. West and Noel (2009) suggest that business performance for new ventures draws on marketplace knowledge and opportunity and the adoption of the best strategic approach to achieve organizational objectives. Strategic knowledge is necessary to sustain long-term success in the marketplace (Verreynne & Meyer, 2010).

Most businesses focus on one of two strategic orientations (Bagnoli & Giachetti, 2015; Davis, Miles, & McDowell, 2008; Walters, Priem, & Shook, 2005). Businesses with an internal strategic approach tend to focus on developing internal processes, including effective human resource management practices, and on creating processes that promote organizational efficiency and cost containment (Gibson, McDowell, & Harris, 2011; Verheul, Risseum, & Bartelse, 2002). This approach allows firms to focus on product features, process efficiencies, and financial objectives. This approach also allows firms to focus on understanding their products and services to achieve more product innovation (Pett & Wolff, 2007).

Conversely, some organizations choose to adopt an externally oriented strategy, which focuses primarily on achieving sales growth and expanding the customer base (Gibson et al., 2011). External strategies often invest more in aggressive marketing and sales practices, and emphasize customer service and market share. These firms are more apt to develop strategic relationships that help to identify new target markets (Pett & Wolff, 2007).

Small-business owners need to understand their own capabilities and the marketplace's expectations to identify the most appropriate strategy to achieve business success. Edelman, Brush, and Manolava (2005) argue that although resources can create a competitive advantage, strategic choices may ultimately determine success or failure. Additional research supports the notion that business performance is dependent upon the best fit between resources, strategic orientation, and market conditions (Pett & Wolff, 2007) and that the age of the firm can affect that strategic choice (Verreynne & Meyer, 2010).

2.2. Liability of newness

Building on the resource-based view of the firm (Barney, 1991), capabilities that offer a firm an advantage can be information-based and include tangible and intangible processes that the firm develops over its life (Amit & Schoemaker, 1993). Additionally, firm management can be a source of competitive advantage (Thornhill & Amit, 2003). Furthermore, managerial and organizational processes give credence to the strengths of the firm (Teece, Pisano, & Shuen, 1997).

The lack of managerial expertise, however, is a deterrent to organizational success. Stinchcombe (1965) defines this lack of expertise as the liability of newness, which identifies four characteristics of younger organizations that make organizations more susceptible to failure: (1) Specific market knowledge during early years; (2) issues within the internal structures of the organization due to lack of experience; (3) the lack of a network with others who may be able to facilitate the needs of the organization; (3) few ties with the firm's primary customer base.

Jovanovic (1982) expands on the liability of newness and reports that younger firms tend to lack the general knowledge regarding what they can or should do in a specific situation. In addition, they may or may not have the necessary resources to fully develop and execute their strategy (Lussier, 1995). These issues force the firm to spend critical time and effort not only to develop a strategy that will work in the current environment but also to know how to execute that strategy effectively (Thornhill & Amit, 2003).

These younger firms are in a constant battle for survival (Aldrich & Auster, 1986). With limited resources and a lack of established organizational routines, younger firms need to generate cash flows that allow them to operate continually (Thornhill & Amit, 2003). Younger firms' primary capabilities are to observe and evaluate the external competitive environment and to react appropriately to generate the revenues necessary to survive.

Small business strategy is an adaptive process that requires firms to manage strategic choices continually (Ensign, 2008). In the early stage of development, small business strategies are more consistent with an external strategy that promotes product and market growth and the cash flows necessary to survive (Verreynne & Meyer, 2010).

Hypothesis 1. A positive relationship exists between external strategic focus and performance for younger businesses.

2.3. Organizational change

Although liability of newness can be an issue that affects younger firms, the organizational-change perspective describes organizations as entities with developed processes that promote effective structures and systems (Hannan & Freeman, 1984). Prior research finds that the inertia these systems and structures develop tends to limit the organizations' ability to change and adapt. The areas in which the organization may be least capable of making changes are those that highly associate with the external strategic focus of the firm (i.e., marketing and goals) (Baum, 1996). These changes, which occur as the firm matures, promote the development of more efficient and effective internal processes, communication, and formalization (BarNir, Gallagher, & Auger, 2003). In addition, the liability of aging, which applies to older firms, states that internal routines, process formalization, and managerial development negatively affect the ability to respond to or even recognize external changes or opportunities (Baum, 1996).

Ensign (2008) posits that small business strategy affects current and future decisions and that complexity and time influence that strategy. The complexity of a business often increases through its life cycle, which can lead to a change in strategic focus. As a small business matures, the business relies more on an adaptive strategy that centers on managing internal resources and processes (Lumpkin & Dess, 2001; Verreynne & Meyer, 2010).

Hypothesis 2. A positive relationship exists between internal strategic focus and performance for older businesses.

3. Data and method

3.1. Sample

This study distributed surveys to small-business owners that the North Carolina Small Business Technology Development Center had identified. Of 1500 surveys, the study received 270 responses (18% response rate). Ethnic minorities represented 50% of respondents, and 55% of respondents were male. Organizational size ranged from 0 to 200 employees not including the owner, with an average of 9 employees. Organizational age ranged from 18 to 75 years, with an average age of 49.2 years old. The respondents indicated a range of industries with 53% service, 13.1% manufacturing, 13.1% retail, 10.6% construction, 6.6% medical, and 2% non-profit. The number of years the current owner had owned the business ranged from 0 to 68 years with an average of 10.5 years of ownership.

3.2. Measures, data, and scale analysis

The survey collected age, gender, years of business ownership, and strategic focus (Davis et al., 2008). This study measured internal and

Download English Version:

<https://daneshyari.com/en/article/10492800>

Download Persian Version:

<https://daneshyari.com/article/10492800>

[Daneshyari.com](https://daneshyari.com)