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## **Ownership Motivation and Strategic Planning in Small Business**

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### INTRODUCTION

This study investigates whether strategic planning in small businesses is related to the business ownership motivations of operators. In particular, the study compares the propensity of operators motivated by financial versus personal/non-financial goals to engage in strategic planning for their businesses.

### METHOD

A self-administered questionnaire was used to survey small business operators in Western Australia. The questionnaire collected general information on the characteristics of operators and their businesses, the initial motivations of operators for going into business and the extent of planning activities.

## ANALYSIS

Quantitative analysis was used in this study to investigate relationships between operators' business ownership motivations and strategic planning. Specifically, factor analysis identified and grouped operators based on their motivations for going into business, and means comparisons (ANOVA) assessed between-group differences in strategic planning.

## RESULTS

Four groups of small business operators were identified in the study based on business ownership motivations. Operators in business to achieve financial goals were more likely to engage in strategic planning than operators motivated by lifestyle change and those 'pushed' into small business ownership. Operators driven by personal achievement goals (e.g., self-development, personal challenge and recognition) were similar to 'financial' operators and showed a greater likelihood to strategically plan.

## CONCLUSION

Motivations for small business ownership are diverse and significantly influence how operators manage their businesses. In most cases, the operator is the business and accordingly, research into small business strategic planning needs to focus on the operator and his/her personal motivations and ambitions.

## INTRODUCTION

Small businesses make up the largest business sector in every world economy (Culkin & Smith 2000) and, since the 1970s, have replaced 'big business' as key drivers of employment and economic growth in most

OECD countries (Peacock 2004). In spite of their dominance (both in terms of absolute numbers and contributions to economic activity), small businesses are generally “plagued by high failure rates and poor performance levels” (Jocumsen 2004, p.659). To ensure sustained development of the small business sector, considerable research has examined why some enterprises are more successful than others. Findings generally show that strategic planning is a vital ingredient in small business development, competitiveness and success (Vicere, 1995). Unfortunately, the majority of small businesses do not strategically plan.

The reticence of small business operators to engage in strategic planning has been broadly attributed to various ‘barriers to planning’. Recently however, it has been argued that overall levels of planning (strategic or otherwise) may be more fundamentally related to the ownership motivations of small business operators (Wang, Walker and Redmond, in press). Accordingly, a study was conducted which explored this proposition. Findings from the study are presented in three sections: first, a review of the relevant literature is provided as background; second, study methodology is presented together with analyses and results; and finally, a discussion of key findings and their implications is offered.

## BACKGROUND

### Strategic Planning in Small Business

Strategic planning refers to the setting of long-term business goals, and the developing and implementing of formal plans to achieve these goals (O'Regan & Ghobadian, 2004; Stonehouse & Pemberton, 2002). Comprehensive reviews of the small business literature suggest that, *ceteris paribus*, strategic planning is generally more common in better performing enterprises (Hormozi, Sutton, McMinn, & Lucio, 2002; Lurie, 1987; Miller & Cardinal, 1994; Schwenk & Shrader, 1993). For example, small businesses that strategically plan (compared to those that do not) are more likely to be those that achieve higher sales growth, higher returns on assets, higher profit margins and higher employee growth (Berman, Gordon, & Sussman, 1997; Bracker, Keats, & Pearson, 1988; Carland & Carland, 2003;

Gibson & Casser, 2005). Small businesses that strategically plan are also more likely to be those that are innovative, those that achieve international growth (Beaver & Prince, 2002; Gibbons & O'Connor, 2005; Stewart, 2002; Upton, Teal, & Felan, 2001) and those less likely to fail (Gaskill, van Auken & Manning 1993; Perry 2001). Overall, the relationship between strategic planning and business performance is best summarised by the following statement:

“Of all the contrasts between the successful and the unsuccessful business, or between the leader and follower,

the single most important differentiating factor is strategy” (J. Thomas Canon cited in Olson & Currie, 1992, p.50).

Given all the evidence on the benefits of strategy and planning however, most small businesses do not strategically plan. In practice, the primary focus of small business operators is on short-term operational rather than long-term strategic issues, and their decision-making is generally reactive and intuitive rather than proactive and deliberate (Brouthers, Andriessen, & Nicolaes, 1998; Gaskill, van Auken, & Manning, 1993; Jones, 1982; Mazzarol, 2004; Stonehouse & Pemberton, 2002). For those operators that do plan, planning is frequently ad hoc rather than formal and subsequently provides little basis upon which business performance can be measured or analysed (Kelmar & Noy, 1990).

Research into why small businesses generally do not engage in strategic planning has suggested that operators may be hindered or discouraged by ‘planning barriers’ such as a lack of time, a lack of specialised expertise, inadequate knowledge of the planning processes, or a reluctance to share strategic plans with employees and external consultants (Robinson and Pearce 1984). Recently however, Wang, Walker and Redmond (in press) argued that business ownership motivations are a major reason for why

many small businesses do not strategically plan. Most small business operators have “capped” or “limited” desires in relation to optimising operational performance and business expansion (LeCornu, McMahon, Forsaith, & Stanger, 1996, p.11). The reason is that many are in business primarily to pursue personal, non-financial goals (e.g. lifestyle change, the need to be independent, etc.) and consequently do not perceive a need to engage extensively in business planning activities.

### Business Ownership Motivation

Motivations for being in business are complex and often, small business ownership is inextricably tied up with the personal lives of business operators and their families (Culkin & Smith, 2000; LeCornu, McMahon, Forsaith, & Stanger, 1996). With respect to small business ownership, the literature suggests that individuals are either ‘pulled’ or ‘pushed’ into business (Brockhaus, 1987; Buttner & Moore, 1997; Hamilton, 1987; Brodie & Stanworth 1998; Cooper & Dunkleberg 1987; Gray, 1994, Hughes 2003; Singh & DeNoble, 2003).

A ‘pull’ motivation is an individual’s positive inner desire to start a business venture and is centred on the potential new business owner’s need to take control and change his/her work status as an ‘employee’. Common ‘pull’ factors include independence or autonomy, being one’s own boss, wealth creation, lifestyle change and the desire to use or apply personal experiences and knowledge (Burke, FitzRoy, & Nolan, 2002; Birley & Westhead 1994; deBruin & Firkin 2001; Mason & Pinch 1991; Singh & DeNoble 2003). In contrast, ‘push’ motivations are external negative drivers and typically encompass aspects such as job frustration, perceived lack of advancement opportunities, avoidance of low-paid occupations, escape from supervision and constraint of subservient roles, unemployment and retrenchment (Moore & Buttner, 1997; Roffey et al., 1996; Curran & Blackburn 2001). Typically, small business ownership occurs from the combination of both ‘pull’ and ‘push’ forces and may be viewed as a continuum along which exists many combinations of ‘push’ and ‘pull’ factor variations (Hughes 2003; Granger, Stanworth and Stanworth 1995).

The specific combination of 'pull' and 'push' motivations that drive small business ownership is determined largely by operator expectations of a positive change in personal circumstance. Particularly important are affective 'windfalls' such as the independence gained from being one's own boss, personal freedom, personal satisfaction, a less rigid, more flexible lifestyle, and more job satisfaction. In counterpoint to notions of economic rationality which assumes that behaviour is primarily profit-driven, such affective windfalls (also referred to as 'psychic rewards' (Owen, Carsky & Dolan 1992) or 'psychic income' (Wheelock & Baines 1998) are often more important than financial gains. This is substantiated by numerous studies into the business aspirations of small business operators (e.g., Rosa, Carter and Hamilton 1996; Gray 1998; Holmes and Zimmer 1994; Sexton 1989; Fielden, Davidson & Makin 2000; Brush 1992; LeCornu at al. 1996; Wiklund, Davidsson & Delmar 2003; Mason, Pinch & Storey 1991; Shane, Kolvereid & Westhead 1991; Rosa, Hamilton, Carter & Burns 1994).

### Linking Small Business Strategic Planning and Ownership Motivations

Although generally treated as independent areas of study in the small business literature, ownership motivations and strategic planning are intricately linked. This is because most small businesses operate as "extensions" of their operators (LeCornu, McMahon, Forsaith & Stanger 1996, p.2) and the strategic (or other) visions of the business are closely aligned with the private motivations and ambitions of operators (Cliff 1998; Galloway & Mochrie 2005). In essence, the operator is the business.

While a focus on 'business financials' is necessary in all enterprises to ensure viability and continuation of operations, small business operators whose objectives are primarily affective or non-financial will, beyond a certain point, ignore profit and growth opportunities (Storey, 1994; Beaver & Jennings 2000; Shepherd & Wiklund 2005). As such, Wang, Walker and Redmond (in press) proposed that where ownership motivations are related

to achieving financial gains, then the impetus for small business operators to engage in strategic planning is likely to be high. On the other hand, where ownership motivations are related to pursuing non-financial objectives, then the likelihood of operators engaging in strategic planning would conversely be low. The present paper reports an investigation of this proposition.

## METHODOLOGY

### Overview

The purpose of the study was to explore the strategic planning activities of small business operators in relation to their motivations for business ownership. In line with the literature discussed above, the following research proposition was developed for the study:

That small business operators motivated by ‘financial’ goals are more likely to engage in strategic planning than operators motivated by ‘personal’ or

‘non-financial’ goals.

Strategic planning involves the systematic setting of comprehensive business goals. In the present study, business ownership motivations were compared against four planning criteria: (1) the use of business plans (yes vs. no), (2) the formality of business plans (written vs. unwritten/‘in my head’), (3) the timeframe of business plans (short-term only vs. long-term only vs. both short- and long- term), and (4) the timely review of business plans (at least half yearly/yearly vs. less than once every two years). Broadly, small business operators engaged in strategic planning could be expected to:

- (1) Have a business plan,
- (2) Have a business plan that was formal (written),

- (3) Have a business plan that covered both the short- and long- term periods; and,
- (4) Have a plan that was reviewed regularly.

## Design and Sample

The study design was a cross-sectional survey of small businesses operating in the state of Western Australia. A purposive list of 1600 small businesses – defined in the study as businesses with less than 20 employees (Australian Bureau of Statistics, 2005) – was compiled from various local proprietary directories. Letters of introduction and self-administered questionnaires were posted to all businesses on the list. Participation was voluntary and anonymous.

Questionnaires were designed to collect general information on the characteristics of operators and their businesses (gender, family involvement, type of business, years in operation, number of employees and customers, exit strategy), the initial motivations of operators for going into business and the extent of planning activities. A 6-point Likert-scale (1 = ‘not at all important’ to 6 = ‘very important’) was used for motivation questions and a simple multiple-choice answer format was used for all other questions.

## Data Analysis

The relationship between operators’ business ownership motivations and strategic planning was of primary interest in all analyses. First, data reduction via principal component analysis was used to identify underlying patterns in ownership motivations and group operators according to their business ownership goals. Next, between-group differences in the use and extent of strategic planning were explored by means comparisons of factor group scores in relation to each of the four strategic planning criteria



proposed. Gender of small business operators was included in analyses and is reported in this paper where significant.

## RESULTS

A total of 486 usable questionnaires were returned, representing a response rate of approximately 30%. Non-response bias was investigated by comparing 'early' and 'late' return respondents on relevant demographic variables. This approach assumes that 'late' return respondents are characteristically similar to non-respondents (French, Kelly & Harrison 2004). No significant differences were found between the two groups in the present study.

### Overview of Planning and Business Ownership Motivations

Of the total returned questionnaires, 58% (281) were from men and 42% (204) were from women small business operators. Two-thirds of all business operators reported that they had a business plan while one-third had none (67% yes vs. 33% no). Of those with plans, about half were formal (i.e., written) and half were informal (i.e., unwritten/'in my head'). Additionally, 31% had plans that were short-term only, 16% had plans that were long-term only while 53% had plans that were both short- and long- term. Of those with plans, 83% reviewed their plans on a timely basis (half yearly or yearly) while 17% did not (longer than every two years).

### Table 1

Ownership motivations were assessed using a 17-item list developed, tested and refined over several studies of Australian small business operators (Walker, 2002a, 2002b; Walker, 2004a, 2004b). The items comprised common 'pull' and 'push' drivers of small business ownership. Table 1 presents individual mean scores for the 17 items. From the table, the

motivation item with the highest and lowest mean scores were ‘to do work that I really enjoy’ (mean = 4.91) and ‘I was made redundant’ (mean = 1.47). In relation to ‘pull’ and ‘push’ motivations, Table 1 shows that ‘pull’ motivations were generally more important drivers of operators’ business ownership decisions. This is observed in the higher mean scores for the majority of ‘pull’ items compared to ‘push’ motivations.

Data reduction via principal component analysis was next applied to the above results to explore underlying commonalities in operators’ business ownership motivations. Generally, loadings  $> 0.5$  are considered practically significant (Hair, Anderson, Tatham, & Black, 1998) and in the present study, lesser loadings were omitted from the analyses.

Table 2 shows that four factors representing underlying groupings of the motivation items could be reasonably extracted from the data. Two items (i.e., ‘to be my own boss’ and ‘to do work that I really enjoy’) initially loaded onto Factor F1. However, neither attained the critical loading value and both were omitted from further analyses. The four factors may be reasonably interpreted as groupings of items along the following unifying dimensions:

- Factor F1: Personal development motivations
- Factor F2: Financial motivations
- Factor F3: ‘Push’ motivations
- Factor F4: Flexible lifestyle motivations

Eigenvalues indicate the size of each of the four factors measured in terms of the amount of variation in the inter-correlation matrixes each factor explains (Myers & Mullet, 2003). The order in which factors are extracted is based on the amount of common variation explained by the factor and those with the highest Eigenvalues are extracted first (Myers & Mullet, 2003). Effectively, Eigenvalues and the percentages of variance explained specify the relative importance or significance of each underlying factor extracted. From Table 2 therefore, the main motivations for operators to go into business were (in order of significance): personal goals relating to self-development, self-challenge and recognition; financial imperatives relating to wealth or asset creation; 'push' or negative reasons relating to previous jobs or careers; and finally, lifestyle objectives.

## Table 2

In relation to the above discussion on ownership motivation, drivers of business ownership can be distinctly financial or non-financial. Of the four factor groupings identified above, factor F2 is clearly defined by financial items while factors F1, F3 and F4 are defined by non-financial items. In line with the literature, F1 (non-financial) is relatively more important as a driver of business ownership than F2 (financial).

### Business Planning and Ownership Motivations

Business planning refers to whether operators had a business plan (yes vs. no). Factor scores for each of the four factor groupings identified above were entered as test variables to compare differences in business planning for the groups. Results are presented in Figure 1 (bars show sample means and distribution (range, high and low values) for each factor group).

## Figure 1 – Business Planning x Ownership Motivation

Figure 1 shows divergence in the planning practices of operators driven by different business ownership motivations. Specifically, operators driven by personal development motivations (F1 group) and financial motivations (F2 group) were more likely overall to have a business plan while operators motivated by 'push' (F3 group) and flexible lifestyle (F4 group) goals were more likely not to have a plan. Analysis of variance showed that F2 operators ( $F = 5.273$ ,  $df = 434$ ,  $p < .05$ ) were significantly different from F3 and F4 operators in their planning practices while differences between F1 and F3-F4 operators approached significance ( $F = 3.238$ ,  $df = 434$ ,  $p < .075$ ).

These results support in part the research proposition (criterion 1 – to have a business plan). In particular, operators motivated by financial goals (F2) are more likely to have a business plan than operators motivated by 'push' (F3) and 'flexible lifestyle' (F4) goals. The similarity between the F1 and F2 groups suggest that operators motivated by personal development goals may be as likely as financially motivated operators to also have a business plan for their businesses.

### Formality of Business Plans and Ownership Motivations

Formality of business plans refers to whether business plans were formal (i.e., written) or informal (i.e., unwritten, 'in my head' only). As in the analysis above, group factor scores were used to compare differences in the formality of business planning by ownership motivation. These results are presented in Figure 2.

Figure 2 shows little between-group differences in the formality of operators' business planning. With the exception of those in the personal development group (F1), small business operators were considerably more likely overall to have informal or 'in my head' than formal-written business plans. ANOVA confirmed that there were no statistically significant differences in the formality of planning between the four groups. This

finding was contrary to the research proposition. Further analyses were performed to explore gender effects and are presented in Figure 3.

Figure 3 clarifies the results obtained above in relation to the research proposition (criterion 2 – to have a formal or written business plan). For male operators, Figure 3 shows that those motivated by financial goals (F2) were more likely to have formal/written business plans compared to those motivated by ‘push’ (F3) and ‘flexible lifestyle’ (F4) goals (who were more likely to have informal/‘in my head’ plans). Additionally, male operators motivated by personal development (F1) goals were also more likely than those in the F3-F4 groups to have formal/written plans. Analysis of variance confirmed that F1 and F2 operators were significantly different to F3 operators in their planning formality ( $F = 6.122$ ,  $df = 216$ ,  $p < .05$ ). Differences between F1-F2 and F4 operators approached statistical significance ( $F = 3.607$ ,  $df = 216$ ,  $p < .06$ ). These results provide qualified support for the research proposition (criterion 2) as well as the previous section’s finding that F1 and F2 operators may be similar with respect to strategic planning.

#### Figure 2 – Formality of Business Planning x Ownership Motivation

For female operators on the other hand, Figure 3 shows an opposite result to research expectations. In particular, female operators motivated by financial ownership goals (F2 group) were considerably less likely to have formal/written plans compared to operators motivated by personal/non-financial objectives (F1, F3, F4 groups). Analysis of variance confirmed that F2 operators were significantly different to the other groups in this respect ( $F = 8.690$ ,  $df = 155$ ,  $p < .01$ ). This result may explain the lack of between-group differences observed in Figure 2 and why the research proposition was not supported for this planning criterion.

## Figure 3 – Formality of Business Planning x Ownership Motivation x Gender

### Timeframe of Business Plans and Ownership Motivations

Timeframe refers to the planning period covered by business plans. In the study, factor groups were compared against three planning periods: short-term only (for plans that covered periods 12 months or less), long-term only (for plans that covered periods more than 12 months), and both short- and long- term. Figure 4 presents this result.

Between-group comparisons show that operators in the personal development (F1) and financial (F2) motivation groups were more likely overall to have business plans that covered both the short- and long- terms (than plans that were only short-term or only long-term). In contrast, small business operators in the ‘push’ and ‘flexible lifestyle’ groups were more likely to have business plans that were short-term only. Analysis of variance showed again that the planning practices of F1 operators were significantly different ( $F = 3.884$ ,  $df = 387$ ,  $p < .05$ ) to those of operators in the F3-F4 groups. No statistically significant difference was found between F2 and F3-F4 operators in respect of planning horizons and the research proposition (criterion 3 – have a business plan that is both short- and long- term) is not supported in this instance. Even so, the observed differences between F2 and F3-F4 may be considered empirically significant.

## Figure 4 – Timeframe of Business Planning x Ownership Motivation

### Review of Business Plans and Ownership Motivations

The final investigation of strategic planning activity explored the frequency of operators’ review of business plans. Factor groups were compared against

two periods of review: at least half-yearly or yearly and less than once every two years. From Figure 6, between-group comparisons show that F2 small business operators were more likely to review their business plans than operators in each of the other factor groups. This difference approached statistical significance ( $F = 2.835$ ,  $df = 388$ ,  $p < .095$ ) and provides qualified support for the research proposition. No other between-group differences were found. In this instance, operators motivated by personal development goals did not differ significantly from 'push' and lifestyle operators.

Figure 6 – Review of Business Planning x Ownership Motivation

## DISCUSSION AND IMPLICATIONS

Strategic planning in small business is related to the ownership motivations of operators. Four groups of small business operators were identified in the present study – those driven by personal development, financial, 'push' and flexible lifestyle factors. On balance, operators motivated by financial goals were more likely than other operators to engage in strategic planning for their businesses. In relation to the strategic planning criteria used in this study, financially motivated operators were more likely to have a business plan. They were also more likely to have a plan that was formal (written), more likely to have a plan that considered both the short and long term, and more likely to have timely reviews of these plans. Given that strategic planning is a vital part of business success, it is reasonable that operators motivated by financial goals would engage in such planning to improve the performance of their businesses.

On the other hand, small business operators in the 'push' and flexible lifestyle groups were more likely not to engage in strategic planning. 'Push' operators have been variously labelled as 'reluctant', 'distressed', 'unwilling' or 'forced' entrepreneurs (Brooksbank 2000; Keeble, Bryson & Wood 1992; Stanworth & Stanworth 1997; Singh & DeNoble 2003; Webster & Walker 2006). Accordingly, it could be expected that such operators

would have low levels of business ‘enthusiasm’ particularly in respect of engaging in, and committing to, long-term planning for the business. Similarly, planning enthusiasm may be low in lifestyle operators who see small business ownership as a vehicle to avoid the onerous workloads typically associated with ‘mainstream’ employment and who expect to be in business for a short time only (e.g., retirees/semi-retirees and women balancing home and work responsibilities).

Interestingly, small business operators motivated by personal development goals showed considerable propensity to strategically plan and exhibited greater similarity in their planning to operators in the financial than non-financial (i.e., ‘push’ and flexible lifestyle) groups. Personal development goals relate to the need for self-development, personal challenge, recognition and the desire to use and further enhance personal skills and knowledge. While non-financial in nature, the extent to which these personal goals are achieved may be measured by operators against the level of the business’s success. Given that the success of any business is traditionally measured in terms of financial performance (e.g., profit, turnover, return on investment, etc.) (Barkham, et al., 1996; Brüderl & Preisendörfer, 1998; Forsaith & Hall, 2000; Ibrahim & Goodwin, 1986; Kalleberg & Leicht, 1991), and that strategic planning contributes significantly to this performance, it could be expected therefore that operators driven by personal development goals would strategically plan in their businesses.

Overall, our study’s findings represent an important contribution to understanding the antecedents of small business planning activities. Although researchers have argued that engagement in strategic planning by small business operators should be understood in relation to ownership motivations (e.g., Beaver, 2003a, 2003b, 2003c), this association has not previously been shown or tested empirically. Perhaps for this reason, extant research to understand the general lack of strategic planning in small business typically ignores or disregards motivation as a possible factor. This has been exacerbated by research in the last decade shifting away from the operator to focus on more macro-type explanations. For example,



environmental uncertainty or turbulence (Shrader, Mulford & Blackburn 1989; Matthews & Scott 1995; Yusuf & Saffu 2005), size of business (Stonehouse & Pemberton 2002), type of industry (Shrader, Mulford & Blackburn 1989), internal organisational implementation barriers (O'Regan & Ghobadian 2002) and business life-cycle/stage of development (Berry 1998) have in recent times been investigated as possible explanations of why small businesses do not plan. Our study reverts the focus of analysis back to the small business operator and presents a more fundamental *raison d'être* for strategic planning in small businesses – i.e., the operator's business ownership motivations.

In relation to ownership motivations, the four distinct underlying factor groupings identified in this study show that the goals of small business ownership are complex and extend beyond the simple axiom of 'making lots of money'. While financial imperatives represented one of the four factor groups, they were less important to the small business operator than personal development goals. Beyond simply re-confirming results from previous studies of motivation in small business, the present findings have implications for those interested or involved in the overall growth and development of the small business sector. In recent decades, considerable assistance has been afforded by various governments and interested parties (including business and industry groups, academic and other researchers, etc.) in support of small business. Based on our results, a more targeted approach is necessary that differentiates between those operators with strong growth imperatives who wish to develop their businesses and others with less ambitious drives who may be more interested in maintaining a status quo.

With respect to differentiating between groups of small business operators, our study showed a considerable gender effect in the formality of planning. Women in the financial motivation group were more likely to have informal ('in my head') plans than formal written plans. In contrast, financially driven male operators were more likely to have formal written than informal plans. Generally, women's strategic planning is still very much an under-

researched area and there exists little empirical findings on gender differences in this area. Given that male-female differences have been found in respect of entrepreneurial ability (Cowling & Taylor 2001), decision-making (Chaganti 1986), risk preference (Powell & Ansic 1997), competitive strategy (Carter, Williams & Reynolds 1997), and the pursuit of growth (Zinger, LeBrasseur, Riverin & Robichaud 2005), a better understanding of gender differences in strategic planning may be needed.

## SUMMARY

The motivations for small business ownership are diverse and significantly influence how operators manage their businesses. In most cases, the operator is the business and accordingly, research into small business strategic planning needs to focus on the operator and his/her personal motivations and ambitions.

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