

FACTORS CONTRIBUTING TO SMALL BUSINESS HEALTH

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By

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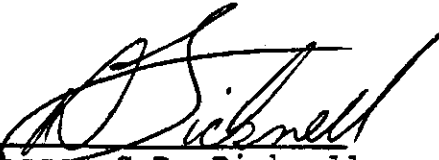
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A man goes to knowledge
as he goes to war, wide awake,
with fear, with respect, and with absolute
assurance. Going to knowledge or going to war in any
other manner is a mistake, and whoever makes it
will live to regret his steps.

The Teaching of Don Juan:
A Yaqui Way of Knowledge
(Carlos Canstanaeda)


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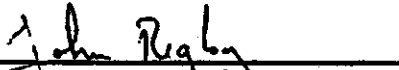
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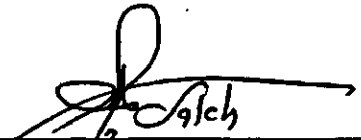
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Factors Contributing to Small Business Health

Cory D. Bergh

Abstract

This study determined the factors which most contribute to the health or prosperity of small businesses. The factors examined were owner/manager *learned business tools* and *inherent traits*. The learned tools include Strategic Management, Marketing Orientation, and Financial Management items. The inherent traits refer to entrepreneurial characteristics. Data was collected by mail from 239 small businesses in Saskatoon, Saskatchewan. Simple linear regression, Pearson product-moment correlation, and discriminant analyses were used to test the hypotheses.

Perceived importance of Strategic Management and Marketing Orientation were found related to healthier businesses. However, perceived importance of Financial Management was not found to significantly explain variations in businesses health. These results were confirmed by findings that healthy businesses use Strategic Management and Marketing Orientation tools with significantly greater frequency than sick businesses. Again, Financial Management was not found to be a significant factor in determining business health.

These results indicate the importance of strategy and marketing to the success of small businesses. Also it suggests that Financial Management plays a subordinate role to both strategy and marketing in determining the success of a small firm. In addition, the inherent entrepreneurial traits possessed by owners/managers were found to be significant in explaining business success. Small business owners/managers benefit from displaying entrepreneurial traits such as possessing the need to achieve goals and ability to innovate.

This study also found a positive relationship between the perceived importance of the learned tools and the inherent entrepreneurial traits. Rather than being polar opposites, entrepreneurial traits and fundamental business tools complement one another. Strategic Management, Marketing Orientation, and Financial Management do not come at the expense of entrepreneurial savvy. Finally, the cumulative result is a predictive model of business health, predicting health correctly 72% of the time. The implications of such a model are that it may be used as a diagnostic tool by business owners/managers, investors, and others who may wish to investigate the health or health potential of individual small businesses.

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CB

This masters thesis is dedicated to:

Keri Gleave

for her suffering and endurance during the
often excruciatingly painful production of this thesis.

Her devotion and love inspired me to do my best.

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1.0 INTRODUCTION

1.1 RATIONALE FOR STUDYING SMALL BUSINESS HEALTH

Consider the implications of opening a small business in Canada. Chances are that the new business will not be around five years from now. Nearly one half of all new small businesses fail within 18 months and 80% fold before the end of five years (Bates & Nucci, 1989; Boyle & Desai, 1990; Brockhaus, 1980). Since small businesses include 98% of the firms in Canada and North America (Peterson, 1977; Carland, et al., 1984), and are responsible for the creation of 80% of all new jobs (Hofer & Sandberg, 1987), more attention should be paid to the factors which lead to their prosperity.

Research in the areas of business success and failure is extremely detailed and has been rigorously applied to businesses of all types. Yet, upon reviewing such literature it is clear that two key perspectives are missing. The first problem is that the managerial disciplines of Strategic Management, Marketing Orientation, Financial Management, and Entrepreneurship

have each commanded individual attention, resulting in what may be unintentional research bias. In reality, these four factors play interactive roles in the outcome of business success. What is missing is comprehensive, integrated research into factors leading to the overall health of Canadian businesses.

Secondly, only a few researchers have attempted to explain small business actions. The overwhelming majority of publications have come from a large business perspective. It is debatable whether the typical practices of large businesses, as documented by researchers, apply to small businesses. Common sense would suggest otherwise because limited money, information and other resources constrain the actions of small business owners/managers. While the *small practice vs. big practice* debate rages on, and a comprehensive perspective is neglected, more small businesses simply disappear. It is time that the factors which specifically apply to small business practice and success be thoroughly investigated.

1.2 OBJECTIVES OF THE STUDY

The primary objective of this study is to investigate a broad range of managerial and entrepreneurial factors affecting the health of small

businesses in Saskatoon, Saskatchewan. This approach will tie together practices from the areas of *Strategic Management, Marketing Orientation, Financial Management and Entrepreneurial Orientation* in order to shed light on how they individually and collectively affect small business success or failure.

A secondary objective of this study is to construct a *predictive model of small business health* from the individual items in Strategic Management, Marketing Orientation, Financial Management and Entrepreneurial Orientation. This approach will take the factors that are most indicative of healthy businesses and will use them to build a prescription for how small businesses may achieve greater success.

Clearly, this study will be more than a test of previous academic work. It will also contribute a fresh understanding of small businesses and the factors leading to their prosperity.

2.0 LITERATURE REVIEW

2.1 DEFINING A SMALL BUSINESS

One of the most common ways to define a small business is to use demographic criteria. Typically, firms are described by characteristics such as ownership, the number of employees, and total annual gross sales. Often, definitions vary widely among studies. For example, Hoy & Hellriegel (1982) define a small business as one that is not a partnership or cooperative, has between 5 and 50 full time employees, and exists within a 150 mile radius of the research location. Shuman et al. (1985) specify a small business as an independently, privately held corporation, proprietorship or partnership, which is at least five years old, has sales between \$100,000 and \$25 million. Miller & Toulouse (1986) define a small business as simply having less than 500 employees. Begley & Boyd (1986) define a small business as a business with up to 100 employees with sales of less than \$10 million.

It is very common to use such demographic characteristics as eligibility criteria for studies of small businesses. However, the main criticism that arises is that the results from one particular group of businesses (i.e. up to \$25 million in sales) cannot easily be generalized to another population (i.e. less than fifty employees).

Considering the lack of consensus on what size of business actually constitutes a small business, a less precise but perhaps more useful definition of a small business is as follows: "*A small business is one that is independently owned and operated, and which is not dominant in its field of operation*" (Peterson, 1977, p. 61; Robinson & Pearce, 1984, p. 129; Keats & Bracker, 1988, p. 45). In the interest of generalizability of the study results, the concept of completely independently owned and operated businesses and the effect of owner/managers on performance is more important than the number of employees or amount of annual sales (Keats & Bracker, 1988).

2.2 DEFINING BUSINESS HEALTH

Businesses are unique, dynamic, and continually evolving organizations. Like people, businesses experience healthy times of prosperity along with hard

times of depression. Through the course of business development, it is important for the owner or manager of a business to be able to evaluate the health of their own organization. Evaluation may be qualitative or quantitative (Eisner, 1981). Qualitative evaluation of health is a subjective and unstructured form of assessment yielding a feeling rather than a concrete diagnosis. Conversely, quantitative evaluation of health requires an objective and structured framework so that results are more reliable. Therefore, for the purpose of this study, business health will be explored in a quantitative fashion.

Similar to the definition of a small business, there is a lack of consensus on what constitutes the best quantitative measure of firm performance. Robinson & Pearce, (1983) use profit margin, return on assets, loan growth, and Return on Equity as success measures. Narver & Slater (1990) use only profit and Reukert (1992) uses only Return on Assets as success measures. While many researchers use only financial items to represent firm performance, others define it in some non-financial terms as well. A study of small business practices in Britain (Foley, 1985) suggests that small business success is best measured in sales, profit, Return on Investment, percentage profit, asset turnover, sales per employee,

profit per employee, employment size, employment change in the last one, two and three years. In spite of the plethora of definitions available, it is clear that an important dimension is missing. Since the majority of small businesses aspire to be larger, one of the most pivotal factors in determining a company's performance is its *growth rate* (Churchill & Lewis, 1983; Shuman & Seeger, 1986; Cragg & King, 1988; Birley & Westhead, 1990).

Churchill & Lewis (1983) indicate that the five stages of business development are: (1) existence, (2) survival, (3) success, (4) take-off, and (5) resource maturity. To get through each of these stages and become *resource mature*, a business must grow, and with each stage of growth deal with a number of entrepreneurial and management problems. These problems include securing and managing financial, human, information and marketing resources; separating personal and organizational goals; as well as accurately planning for the future (Churchill & Lewis, 1983). A small company that is not gaining new sales, cutting costs, increasing profit, and providing itself with more cash is not dealing with these problems well; therefore can not be in the best of health.

Considering the primitive financial skills of many small business managers (Boyle & Desai, 1990), simple financial measures are the best success indicators for two reasons. First, they are easier to obtain since many small businesses do not perform much financial analysis or may not have more complicated figures at their disposal. Second, they are easily understandable and interpretable. For example, a measure such as Return on Investment may be calculated in a variety of ways. This clouds its meaning and weakens its usefulness across cases, whereas rising costs and shrinking margins universally mean trouble.

The simplest quantitative measures used to describe small business health are positive or negative changes in:

(1) *sales volume*; which represents the pure growth of a business (Ackelsberg & Arlow, 1985; Miller & Toulouse, 1986; Venkatraman & Ramanujam, 1987; Boyle & Desai, 1990, 1991).

(2) *gross margin*; which represents management control over pricing and cost of goods sold (Boyle & Desai, 1990, 1991).

(3) *profit*; which represents the ultimate outcome measure (Ackelsberg & Arlow, 1985; Robinson et al., 1986; Miller & Toulouse, 1986; Venkatraman & Ramanujam, 1987; Boyle & Desai, 1990, 1991).

(4) *cash flow*; which collectively represents management of revenues and expenditures (Ackelsberg & Arlow, 1985; Boyle & Desai, 1990, 1991).

(5) *costs*, which represents pure cost management (Miller & Toulouse, 1986; Venkatraman & Ramanujam, 1987; Boyle & Desai, 1990).

These simple indicators of small business success are influenced strongly by the owners/managers of their respective businesses. This influence may come from both the learned skills and tools used by the owners/managers as well as from their inherent entrepreneurial traits.

2.3 INTRODUCING THE FUNDAMENTAL SKILLS AND TOOLS OF BUSINESS AND ENTREPRENEURSHIP

Lack of managerial skill is cited as one of the major causes of small business failure (Ibrahim & Goodwin, 1986). Development and competent use of fundamental business skills and tools strongly determine

the future success or failure of the business (Khan & Rocha, 1983). The skills and tools of business can be put into the categories of *Strategic Management* (Ansoff, 1965; Mintzberg, 1973; Schendel & Hofer, 1979; Porter, 1980, 1985; Baetz & Beamish, 1990), *Marketing Orientation* (Kohli, Jaworski, & Kumar, 1990; Narver & Slater, 1990; Ruekert, 1992), and *Financial Management* (Altman, 1968; Horvitch, 1982; Boyle & Desai, 1990, 1991). More specifically, Strategic Management refers to longer term tasks that have critical impact on the subordinate operations of the entire firm. Marketing Orientation deals strictly with the gathering and use of market information. Financial Management specifies coordination, analysis, and control of a company's economic situation.

Competent use of the above skills and tools may not guarantee business success. A key factor in the overall health of a small firm is the *Entrepreneurial Traits* of the owner or manager (Carland et al., 1984).

Owner/manager characteristics such as the motivation to succeed, the tendency to assume risk, an eye for innovation, as well as seeking opportunities, directly affect the execution of business fundamentals and thus business success. These personality traits may collectively be called entrepreneurship.

2.4 STRATEGIC MANAGEMENT

Strategic Management is defined as a process that deals with the conceptualization and planning of the organization, with renewal and growth, and more particularly, with the guidance of the organization (Schendel & Hofer, 1979). The primary tasks of strategic management are goal formulation, strategy formulation, strategy evaluation, strategy implementation, and strategic control (Schendel & Hofer, 1979).

Strategy, as defined by Porter (1980, 1985), is the connection between the goals of the organization, the actions taken, and the eventual business health results. Strategy formulation brings conscious focus to achieving the goals and objectives of the organization. In contrast, Mintzberg (1973, 1978, 1985) offers a perspective on strategy different from the deliberate strategy described by Porter (1980, 1985). Mintzberg (1985, p. 258) says an emergent strategy is , "...patterns or consistencies realized despite, or in the absence of, [formal] intentions". This fresh view point may very well describe how many small businesses are managed on a daily basis; operating without specific goals or objectives but with an obscure consistency in strategic action.

Implementation is the control of strategy or strategic plans (Shuman, 1986; Ginter, 1989). The framework for implementation is constructed in goals/objectives and the ensuing organizational strategy, which leads directly to tactical actions in such functions as marketing and finance. Achievement of these actions provides positive results (business health). However, Mintzberg (1985) indicates that intended strategy is never fully realized due to many unknowns in the internal and external environment of an organization.

2.4.1 THE SIGNIFICANCE OF STRATEGIC MANAGEMENT TO BUSINESS PERFORMANCE

There is no consensus on the effect of strategic management on the financial performance of businesses. Theorists like Porter (1980, 1985) and Mintzberg (1973, 1978, 1985) oppose one another about the nature of strategy in organizations. Porter (1980, 1985) sides with formal planning and strategy-making within an organization, suggesting it focuses the entire organization on the big picture of competing effectively. In contrast, Mintzberg (1985) suggests that formalized planning is useful only in theory and that what really matters is the consistency in decision-making over time, suggesting that strategy-making is much more organic. This leans towards Quinn's (1978) theory of logical

incrementalism, where organizations make a series of small strategic decisions rather than a number of larger ones, giving the firm flexibility which may not have been possible with formal planning.

The empirical evidence on strategy is also mixed. Ackelsberg & Arlow (1985) found that companies that planned clearly outperformed those that did not plan, and Miller & Toulouse (1986) discovered that future planning was positively related to business performance. Robinson & Pearce (1983) found that there is no significant difference in performance between formal and informal planners. In addition, Robinson et al. (1986) found that strategic planning negatively contributed to business performance, whereas operational planning was positively associated with business performance. Cragg & King (1988), added to the confusion by finding few planning activities positively related to business performance.

While there continues to be disagreement about whether strategic management is a necessary force within organizations, it is logical to believe that there must be commitment to strategy and planning for the firm to grow. The reason being is that this success is conceptualized through planning, whether it be formal, informal, strategic and/or operational. Even Mintzberg

(1978) agrees that inconsistent actions will surely result in business failure. A small firm must have an idea of what it wants to achieve and how it will reach its intended destination.

2.4.2 STRATEGIC MANAGEMENT TASKS IMPORTANT TO BUSINESS HEALTH

Within the strategic management process there are a number of specific management tasks to be performed by the owners/managers of a business. The literature agrees that owners/managers must *set measurable objectives*¹. The goals and objectives are to be used as benchmarks against which progress and success will be evaluated; ultimately, targets for success. From these objectives comes the more ambiguous concept of *strategy formulation*². Strategy is the plan of action taken to ensure that the objectives are efficiently and effectively achieved.

*Regular management meetings*³ play a large role in the strategic process. Meetings are used to communicate

¹(Ansoff, 1965; Schendel & Hofer, 1979; Ackelsberg & Arlow, 1985; Foley, 1985; Shuman & Seeger, 1986; Robinson, et al. 1986; Ginter, et al., 1989).

²(Ansoff, 1965; Schendel & Hofer, 1979; Porter, 1980, 1985; Mintzberg, 1985; Ginter et al., 1989).

³(Smith & Gannon, 1987; Shapiro, 1988; Kohli & Jaworski, 1990; Narver & Slater, 1990)

the objectives and strategy as well as disseminate strategic information to key staff members. Meetings are also the occasions where *marketing strategy*⁴, *human resource planning*⁵, *contingency planning*⁶, as well as basic *financial management*⁷ tasks are performed and discussed. Often the necessary management expertise is not found within a small company and it may seek the knowledge of *outside advisors*⁸.

Employees are important to the strategic management of small firms because they are the productive force of a company. Plans can not be carried out without them being provided with the skills, knowledge, *training*⁹, and the *authority*¹⁰ to act in the interest of the firm. Finally, employees are often considered an excellent source of

⁴(Khan & Rocha, 1982; Robinson, et al. 1986; Shuman & Seeger, 1986; Boyle & Desai, 1991).

⁵(Robinson et al. 1986; Boyle & Desai, 1991; Dolan & Schuler, 1994).

⁶(Mintzberg, 1976; Ackelsberg & Arlow, 1985).

⁷(Khan & Rocha, 1982; Ackelsberg & Arlow, 1985; Robinson et al. 1986; Boyle & Desai, 1990, 1991).

⁸(Robinson, 1982; Bracker & Pearson; 1985; O'Neill & Duker, 1986).

⁹(Charan et al., 1980; Birley & Westhead, 1990; Ruekert, 1992; Dolan & Schuler, 1994).

¹⁰(Charan, et al. 1980; Miller & Toulouse, 1986; Shuman & Seeger, 1986; Ibrahim & Goodwin, 1987).

*feedback*¹¹ during and after the implementation of plans and strategies.

2.5 MARKETING ORIENTATION

Researchers have long investigated marketing practices in business. In the mid-twentieth century a theory about marketing called the *marketing concept* arose from criticism of businesses defining synonymously *selling* and *marketing*. The executive mentality was that the customer needs must be moulded to fit the product as opposed to the product being shaped to fit the customer needs (Webster, 1988). In contrast, the marketing concept prescribes that businesses follow closely the needs of its customers and see that their needs are completely satisfied. While the marketing concept still has a place in the field of marketing research, it now stands as the groundwork or foundation for new theories, such as *Market(ing) Orientation*.

Recent investigations into the effect of market research on firm performance has revealed a new concept called *Market(ing) Orientation*. *Market(ing) Orientation* refers to the generation of market intelligence, dissemination of that intelligence across departments

¹¹(Charan, et al., 1980; Shuman & Seeger, 1986).

(staff/employees), and organizational responsiveness to future customer needs (Kohli & Jaworski, 1990; Narver & Slater, 1990; Ruekert, 1992). This suggests firms should become more marketing oriented and more aware of their customers needs. Marketing orientation facilitates outward looking, customer-oriented, and flexible businesses. Research is done to determine the needs of customers and action is taken to ensure those needs are met in the most profitable fashion.

2.5.1 THE SIGNIFICANCE OF MARKETING ORIENTATION TO BUSINESS PERFORMANCE

Most researchers and authors acknowledge that there is a positive relationship between being marketing oriented and having a more profitable business. Webster (1988, p. 38) writes,

While one of the hallmarks of a marketing-oriented firm is a striving for profitability rather than sales volume or market share alone, it is *long-term* profitability and market position that are the objectives.

An empirical test of this proposition is found in the same study that discovered a mixed relationship between strategic management tasks and business health (Robinson, et al., 1986). Robinson et al. (1986) found that collecting information on both customers and competitors was positively and significantly related to business performance. Fann & Smeltzer (1989) corroborated this

result. Narver & Slater (1990, p. 32) also concluded that "...market orientation is an important determinant of profitability". Similarly, Kohli & Jaworski (1990, p. 13) write,

A market orientation appears to prove a unifying focus for the efforts and projects of individual and departments within the organization, thereby leading to superior performance. Not surprisingly, virtually all of the executives interviewed noted that a market orientation enhances the performance of an organization.

The primary reason for its acceptance is that a marketing oriented firm achieves greater customer satisfaction; therefore more business, including more repeat business (Kohli & Jaworski, 1993). Marketing orientation leads to greater market share which, as Szymanski et al. (1993) found, is significantly and positively related to profits.

2.5.2 MARKETING ORIENTATION AND MARKETING MANAGEMENT TASKS IMPORTANT TO BUSINESS HEALTH

Becoming Market(ing) Oriented requires a business to address eleven specific marketing management tasks. *Identification of the target market(s)*¹² is essential in gaining a customer focus. *The needs of the customers must be determined*¹³, then the firm can evaluate its

¹²(Hofer & Sandberg, 1987; Gultinan & Paul, 1988; Shapiro, 1988; Peterson, 1989; Narver & Slater, 1990; Ruekert, 1992).

¹³(Shapiro, 1988; Gultinan & Paul, 1988; Peterson, 1989; Kohli & Jaworski, 1990; Narver & Slater, 1990; Ruekert, 1992).

ability to design and deliver the products/services¹⁴ demanded by customers. Then the firm must find the best channels¹⁵ through which to distribute the product/service to the customers. Having done so, the firm must then position itself in the market place by setting a strategy for pricing¹⁶ and raising awareness through promotion¹⁷.

The firm also needs to be sensitive to actions of competitors¹⁸ and shifts in consumer taste¹⁹. In addition, the market demand must be forecast²⁰ and market share be evaluated²¹ regularly so that the firm may

¹⁴(Foley, 1985; Birley & Norburn, 1985; Shapiro, 1988; Gultinan & Paul, 1988; Peterson, 1989; Narver & Slater, 1990; Ruekert, 1992).

¹⁵(Khan & Rocha, 1982; Foley, 1985; Gultinan & Paul, 1988).

¹⁶(Foley, 1985; Robinson et al. 1986; Gultinan & Paul, 1988; Kohli & Jaworski, 1990; Boyle & Desai, 1990; Narver & Slater, 1990).

¹⁷(Foley, 1985; Robinson et al., 1986; Gultinan & Paul, 1988; Peterson, 1989).

¹⁸(Gultinan & Paul, 1988; Shapiro, 1988; Fann & Smeltzer, 1989; Kohli & Jaworski, 1990; Narver & Slater, 1990).

¹⁹(Robinson, et al., 1986; Gultinan & Paul, 1988; Shapiro, 1988; Kohli & Jaworski, 1990).

²⁰(Ackelsberg & Arlow, 1985; Robinson, et al., 1986; Gultinan & Paul, 1988).

²¹(Birley & Norburn, 1985; Gultinan & Paul, 1988; Szymanski, et al., 1993).

*adjust its marketing efforts*²² to continually meet customer needs and ensure success.

2.6 FINANCIAL MANAGEMENT

Financial Management is "...the acquisition, management, and financing of resources for firms..." (Davis & Pinches, 1988, p. 5). These resources, used in the start-up and day-to-day operations are very often considered an investment. Regardless of whether this capital comes from the owner/manager, a bank loan, family, partner, venture capitalists, or shareholders, the investment is intended to yield a return for the investor. The major assumption of financial management is that "...the primary objective of a firm is to maximize the value of [stake holder] claims on the firm" (Davis & Pinches, 1988, p. 5). Investors are interested in the highest possible market value of the firm. This is based on "(1) the magnitude of future cash flows to be received; (2) the timing of the cash flows; and (3) the risks involved" (Davis & Pinches, 1988, p. 6). Brophy & Shulman (1992, p. 62) write,

growing firms experience a number of critically important investment decisions, particularly in the early stages of life. Essentially, a multi-period series of uncertain cash flows contains investment risk which needs to be assessed...In addition,

²²(Shapiro, 1988; Kohli & Jaworski, 1990; Narver & Slater, 1990; Ruekert, 1992).

managers of capital need to constantly monitor the efficiency of the their invested assets.

This leaves the owner/managers with the large task of managing debt and assets to ensure the business runs smoothly, turns a profit, and experiences significant growth.

2.6.1 SIGNIFICANCE OF FINANCIAL MANAGEMENT TO BUSINESS PERFORMANCE

While every firm is subject to tumultuous environmental influences, the fact remains that many of the problems faced by firms today are related to inadequate financial management. Firms that are merely doing monthly books, which include no more than balance sheets and income statements, are obviously looking for trouble (Boyle & Desai, 1990, 1991). Many researchers blame business failures on liquidity problems arising from inadequate long term strategic planning and short term cash mismanagement. In addition, too many businesses start with inadequate capital to sustain their venture and rely on short-term debt to make up the differences, causing small firms to be less liquid and less profitable (Davidson & Dutia, 1991) than larger firms.

Robinson et al. (1986) established that there is a significant positive relationship between business

performance and such tasks as preparing and analyzing detailed cash flow statements and monitoring accounts payable continuously. These tasks are more important for small business where current and quick ratios have been found to be significantly lower than those in larger businesses (Davidson & Dutia, 1991). This means that small firms carry relatively larger debt loads than larger businesses, leaving them exposed to potential capital shortages in emergency situations. As a result, small firms must carry proportionally more cash than larger firms for contingency purposes (Davidson & Dutia, 1991).

Debt/asset management problems are rooted in poor accounting methods and unplanned or uncontrolled expenditures. The reasons may be attributed to the lack of strategic planning, inexperience, and inadequate knowledge of financial matters (Robinson and Pearce, 1984; Boyle & Desai, 1990).

2.6.2 FINANCIAL MANAGEMENT TASKS IMPORTANT TO BUSINESS HEALTH

The literature identifies the basic financial management tasks with which small businesses should be acquainted. Clearly, all businesses should prepare and

analyze financial statements²³ on a regular basis. This includes preparing a budget, determining the break-even point²⁴, analyzing the variances between forecasted and actual results²⁵, and calculating financial ratios (liquidity, turn-over, profitability, debt & asset)²⁶.

Additional tasks include maintaining the accounts receivable²⁷ to minimize uncollectible sales, monitoring the inventory levels²⁸ to prevent over stocking or shortage situations, and cash forecasting to maintain a positive cash flow²⁹ from period to period.

2.7 ENTREPRENEURIAL ORIENTATION

Over the years there have been numerous attempts to conclusively define entrepreneurship. Cunningham & Lischeron (1991) identify six schools of thought commonly used in describing entrepreneurial behaviour. These are

²³(Khan & Rocha, 1982, Boyle & Desai, 1990, 1991)

²⁴(Robinson, et al., 1986; Boyle & Desai, 1990)

²⁵(Ackelsberg & Arlow, 1985; Robinson, et al. 1986; Boyle & Desai, 1991)

²⁶(Robinson, et al., 1986; Davis & Pinches, 1988; Boyle & Desai, 1990, 1991; Davidson III & Dutia, 1991)

²⁷(Khan & Rocha, 1982, Boyle & Desai, 1990, 1991)

²⁸(Khan & Rocha, 1982, Robinson, et al., 1986; Boyle & Desai, 1990)

²⁹(Horvitch, 1982; Khan & Rocha, 1982, Robinson, et al., 1986; Boyle & Desai, 1990)

the *Great Person School*, *Psychological Characteristics School*, *Classical School*, *Management School*, *Leadership School*, and *Intrapreneurship School*. While the schools of thought are useful in a broad sense, it is unlikely that any one school completely defines entrepreneurial behaviour. This is evident when examining the research on individual entrepreneurial characteristics. Carland et al. (1984, p. 356) compiled a list of entrepreneurial traits from an examination of the literature up to and including 1982 (Table 2.1).

This review of the research has covered all six schools of thought and there appears to be no agreement on a definition. Obviously, entrepreneurial behaviour is dynamic and extremely difficult to specify with complete certainty. Perhaps a more useful definition lies in some combination of the schools of thought and their respective corresponding entrepreneurial characteristics.

Table 2.1 Evolution of Entrepreneurial Research (Adapted from Carland et al., 1984, p. 356)

<u>Year</u>	<u>Author</u>	<u>Characteristic(s)</u>
1884	Mill	Risk bearing(2)
1917	Weber	Source of formal authority(5)
1934	Schumpeter	Innovation(3), initiative(1)
1954	Sutton	Desire for Responsibility(4)
1959	Hartman	Source of formal authority(5)
1961	McClelland	Risk taking(2), need for achievement(2)
1963	Davids	Ambition(2); desire for independence(2); responsibility(5); self confidence(1)
1964	Pickle	Drive/Mental(1); human relations(4); communication ability(5); technical knowledge(4)
1971	Palmer	Risk measurement(2)
1971	Hornaday & Aboud	Need for achievement(2); autonomy(2); aggression(5); power(5); recognition(5); innovative/independent(3)
1973	Winter	Need for power(5)
1974	Borland	Internal locus of control(4)
1974	Liles	Need for Achievement(2)
1977	Gasse	Personal Value Orientation(2)
1978	Timmons	Drive/self-confidence(1); goal oriented(2); moderate risk taker(2); internal locus of control(4); creativity/innovation(3)
1980	Sexton	Energetic(1)/ambitious(2); positive reaction to set backs(2)
1981	Welsh & White	Need to control(4); responsibility seeker(4); self-confidence/drive(1); challenge taker(2); moderate risk taker(2)
1982	Dunkelberg & Cooper	Growth oriented(6); independence oriented(3); craftsman oriented(3)

Note - Numbers in brackets have been inserted to correspond with the entrepreneurial school of thought that, by definition, best fits each characteristic : (1) *Great Person School*; (2) *Psychological Characteristics School*; (3) *Classical School*; (4) *Management School*; (5) *Leadership School*; and (6) *Intrapreneurship School*.

2.7.1 SIGNIFICANCE OF ENTREPRENEURIAL TRAITS TO BUSINESS PERFORMANCE

Many researchers have developed complex models of the relationship between entrepreneurship and business performance. Sandberg (1986) developed and empirically tested a model of new venture performance (NVP) based on strategy of the firm, industry structure, and the characteristics of the entrepreneur. Sandberg's (1986) testing of the model found that while strategy and industry structure both significantly affected the performance of a new venture, entrepreneurial characteristics were not found to have statistically significant influence. Sandberg (1986) does state that the results should be interpreted with caution because the sample size for the study included only 17 ventures.

Miller & Toulouse (1986) studied two specific entrepreneurial traits of chief executive officers of small firms. The *need to achieve* and the *locus of control* were examined to determine their effect on business performance. Business performance was measured on profitability, sales growth, growth in net income, and return on investment. They found that *locus of control* was significantly and negatively related to growth in sales only, while the need to achieve was not significant to any performance measure. These findings seem to

negate the belief that entrepreneurial orientation has a positive effect on business success. However, since only two characteristics were studied, it is difficult to draw broad conclusions.

To further study this relationship, Keats & Bracker (1988, p. 47) designed, but did not test a model where,

...the level of entrepreneurial intensity will affect the level of task motivation and the degree to which an individual perceives that he/she has the ability to control the success of the business.

In other words, Keats & Bracker (1988) suggest that the more entrepreneurial an individual is, the more motivation to succeed they will have; therefore achieving greater success in their business venture. To corroborate this speculation, Herron & Robinson (1993) enhanced the Sandberg (1986) NVP model calling it the Value Creation Performance (VCP) model. The VCP model includes the original factors of strategy and external environmental structure, but breaks down entrepreneurial influence into personality traits, aptitude, training, skill, and motivation. Though the VCP model is not yet tested, Herron & Robinson (1993) insist that entrepreneurship does positively affect venture performance.

Despite inconclusive findings, academics continue studying this area because the entire spectrum of

entrepreneurial influence has not been completely covered.

2.7.2 ENTREPRENEURIAL AND MANAGERIAL TRAITS IMPORTANT TO BUSINESS HEALTH

Taking into account the original theories as well as more recent literature corroborating past findings, a modern definition of *Entrepreneurship* is attempted. While leaning towards the Psychological Characteristics School, this modern definition does cross the boundaries of the original entrepreneurial schools of thought and includes items from the Classical School and the Management School. In this definition, an entrepreneur is most likely to possess the *need for achievement*³⁰; be *independence-oriented*³¹; *desire personal control*³²; *seek opportunity*³³; be *innovative*³⁴; and assume *calculated risk*³⁵.

³⁰ (Lachman, 1980; Carland et al., 1984; Low & MacMillan, 1988; Cunningham & Lischeron, 1991).

³¹ (Lachman, 1980; Carland et al., 1984; Low & MacMillan, 1988).

³² (Birley & Norburn, 1985; Carland et al., 1984; Cunningham & Lischeron, 1991; Low & MacMillan, 1988).

³³ (Carland et al., 1984; Birley & Norburn, 1985; Olson, 1986; Keats & Bracker, 1988; Cunningham & Lischeron, 1991; Sandberg, 1992).

³⁴ (Lachman, 1980; Carland et al., 1984; Low & MacMillan, 1988; Cunningham & Lischeron, 1991; Sandberg, 1992)

³⁵ (Brockhaus, 1980; Lachman, 1980; Carland et al., 1984; Birley & Norburn, 1985; Smith & Gannon, 1987; Cunningham & Lischeron, 1991; Sandberg, 1992).

Notwithstanding the traits which characterize an entrepreneur, there are traits which entrepreneurs and/or managers of businesses may possess which too may account for their business success. The management literature frequently refers to decision makers who consistently make *rational decisions*³⁶ which over time form patterns in strategy as described by Mintzberg (1978). Also, Mintzberg's (1973) identification of three modes of strategy-making indicates that in addition to the entrepreneurial and planning modes, there is the *adaptive*³⁷ mode. In this case, the manager has the ability to form strategy as it emerges due to unexpected events where *systematic*³⁸ plans are unrealized and strategy emerges (Mintzberg, 1985) from *intuitive*³⁹ decision making. The level of *experience*⁴⁰ possessed by the manager or entrepreneur will also play a role in the success of the venture because small business owners often have more than one start-up in their careers before they get the correct formula for success (Shuman et al.

³⁶(Mintzberg, 1973; Bird, 1988; Ginter, et al., 1989).

³⁷(Mintzberg, 1985).

³⁸(Ansoff, 1965; Mintzberg 1973, 1982; Quinn, 1978; Schendel & Hofer, 1979).

³⁹(Hoy & Hellriegel, 1982; Ibrahim & Goodwin, 1987; Bird, 1988.)

⁴⁰(Foley, 1985; Sandberg, 1986; Ibrahim & Goodwin, 1987; Low & Macmillan, 1988).

1985). In addition, whether the owners/managers are willing to seek out and accept the *growth*⁴¹ of their businesses may play a large role in their success.

2.8 ENTREPRENEURSHIP AND ITS ASSOCIATION WITH THE TOOLS OF BUSINESS

It is debatable whether owners/managers who have predisposed tendencies to be entrepreneurs also have similar predisposed tendencies to be good managers. The characteristics previously identified from the literature as indicative of an entrepreneur, appear to be psychological traits. Rather than promoting the rational behaviour necessary to be managerially competent, they may actually foster ad-hoc decision making and informal firm structure.

Henry Mintzberg (1973) writes that in an entrepreneurial firm, the decision making power is centralized in the hands of the chief executive officer who "...thrives in the conditions of uncertainty" (p. 45). In addition, the decision making is centred on "...active search for new opportunities" (p. 45), and "...growth of the organization" (p. 46). "Thus, because of their unique traits and characteristics, environmental attributes that

⁴¹(Shuman & Seeger, 1986; Cragg & King, 1988; Birley & Westhead, 1990).

entrepreneurs consider important are likely to be different from those [that] small business executives...consider important" (Taylor & Banks, 1992, p. 25). In contrast, a recent study of the relationship between marketing orientation and entrepreneurial orientation discovered that the two were positively related (Miles & Arnold, 1991, p. 60). Yet, despite this finding, they state that,

[although]...marketing orientation and entrepreneurial orientation were found to be correlated...they do not appear to represent the same underlying business philosophy...Essentially, the marketing orientation can exist independently and does not always need aspects typical of an entrepreneurial orientation such as an organization's tendency to be innovative, accept risks, and act in a proactive manner. Further, the entrepreneurial orientation can be developed in an organization based upon the dynamics of the environment (Miles & Arnold, 1991).

The similarities and differences between entrepreneurs and managers is important to explore. One of the commonly cited reasons for the failure of small business entrepreneurs is lack of management skills (Khan & Rocha, 1982; Peterson et al., 1983; Ibrahim & Goodwin, 1986). The entrepreneurial firm "requires that strategy-making authority rest with one powerful person" (Mintzberg, 1973, p. 45), meaning that businesses strategies and plans lie only within the mind of the owner/manager. The owner/manager does not have to formalize and communicate these plans because they appear

to be the only person who needs to know them, neglecting the tasks leading to managerial competence. Therefore, the very characteristics that make an entrepreneur successful may then also be the ones that cause his/her ultimate demise.

Adding credibility to this argument, Mintzberg & Waters, (1982, p. 496) write that, "...so long as the business is simple and concentrated enough to be comprehended in one brain...the entrepreneurial mode is powerful, indeed unexcelled". This suggests diminishing returns of entrepreneurship. This is explained by Olson (1987, p. 12),

Highly developed management capabilities are not always needed during the start-up phase of an entrepreneurial small business. At this time the primary focus is on creating and developing innovative products and services. When a firm enters the rapid growth phase however, management talents become crucial. In fact during this stage many entrepreneurs lose control of their companies, because managing growth is quite different from managing start-up activities (Olson, 1987).

So, for the long-run success of a firm, the self driving forces such as need for achievement, independence and innovation may not be conducive to developing managerial competence in utilizing the tools of businesses.

2.9 RESEARCH QUESTIONS

Although small businesses make up the overwhelming majority of the business population in North America,

little is known about how they use the tools of business and what makes them failures or successes. The following fundamental research questions should be addressed:

Do owners/managers who perceive *Strategic Management, Marketing Orientation, and Financial Management* tools as important to business success actually have healthier businesses? While past research may draw mixed conclusions for this question, the theory suggests that management tools definitely help businesses survive.

Do owners/managers who perceive *Entrepreneurial* traits as important to business success actually have healthier businesses? Do owners/managers that fit the *Definition of an Entrepreneur* actually have healthier businesses? Similar to the tools of business, the entrepreneurship literature is inconclusive about exactly how entrepreneurs affect the health of their businesses. However, the researchers appear convinced that there is a positive relationship between entrepreneurial behaviour and business success.

Are Entrepreneurs good managers? As a company grows, the consensus is that entrepreneurial behaviour becomes less applicable, due to the need for more management

behaviour. Therefore, it is expected that entrepreneurial behaviour and competent use of the tools of business are negatively related.

Is there a difference between how often healthy businesses and sick businesses use *the tools of business*? The literature suggests that healthy businesses operate differently than sick businesses. However, little investigation has gone into exactly which tools most differentiate healthy businesses from sick.

2.10 SUMMARY

While the vast majority of businesses in North America are small, much of the research done on business today deals with big business. This disproportionate attention leaves small business owner/managers trying to imitate big business rather than performing the tasks and developing the skills that result in the success of their small business.

Strategic Management, Marketing Orientation, and Financial Management tools are as important to small business success as they are to big business success. However, in the small business the single owner/manager or at best a handful of owners/managers must develop all of these skills and perform these tasks. There is only

so much time available for decisions to be made and crucial tools to be used. For a small business, putting emphasis in the wrong areas and using the wrong tools may result in failure. Big businesses use all the tools and more because the chief executive officers can master the concepts, hire people with specific skills, and delegate tasks to specialists.

This glaring bias towards big businesses is why the practices of successful small businesses must be further investigated. Small business owners/managers have intimate knowledge of what makes their own small business successful. They constantly spend their precious time developing the skills and performing the tasks that make the most difference in their small business performance. Instead of trying to conveniently stretch big business tools to fit small business needs, research must be done into the factors that truly affect small business health.

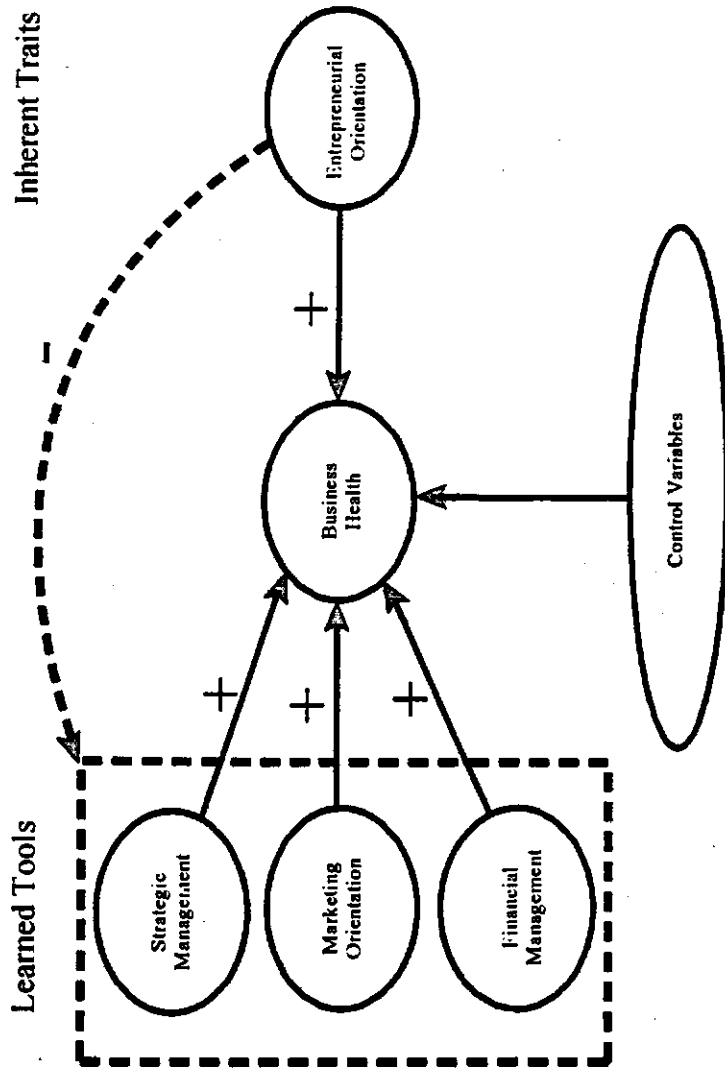
3.0 FACTORS CONTRIBUTING TO SMALL BUSINESS HEALTH

The factors affecting business health are illustrated in a six variable model (Exhibit 3.1). At the centre is the dependent variable of business health. On the left hand side are three variables, collectively called the learned tools of business (Strategic Management, Marketing Orientation, & Financial Management). On the right hand side is the entrepreneurial variable and on the bottom are the control variables.

The owner/manager's perceived importance of performing business fundamentals will have a direct positive effect on the health of his/her small business. Similarly, the owner/manager's perceived importance of, and actual display of entrepreneurial traits will have a direct positive effect on business health. And finally, the perceived importance of entrepreneurship will be negatively associated with the perceived importance of business fundamentals.

Exhibit 3.1 The Hypothesised Model of Business Health

Factors Contributing to Small Business Health



3.1 THE HYPOTHESES

- H1a : Small business owners/managers who score high on the *Importance of Strategic Management Tools* scale, will also score high on the *Business Health* scale.
- H1b : Small business owners/managers who score high on the *Importance of Marketing Orientation Tools* scale, will also score high on the *Business Health* scale.
- H1c : Small business owners/managers who score high on the *Importance of Financial Management Tools* scale, will also score high on the *Business Health* scale.
- H2 : Small business owners/managers who score high on the *Importance of Entrepreneurial Traits* scale, will also score high on the *Business Health* scale.
- H3 : Small business owners/managers who score high on the *Owner/Manager Fit to Entrepreneurial Traits* scale, will also score high on the *Business Health* scale.
- H4a : Small business owners/managers who score high on the *Importance of Entrepreneurial Traits* scale, will score low on the *Importance of Strategic Management Tools* scale.
- H4b : Small business owners/managers who score high on the *Importance of Entrepreneurial Traits* scale, will score low on the *Importance of Marketing Orientation Tools* scale.
- H4c : Small business owners/managers who score high on the *Importance of Entrepreneurial Traits* scale, will score low on the *Importance of Financial Management Tools* scale.

- H5a : There will be a statistically significant difference between the scores of healthy businesses and sick businesses on the *Use of Strategic Management Tools scale*.
- H5b : There will be a statistically significant difference between the scores of healthy businesses and sick businesses on the *Use of Marketing Orientation Tools scale*.
- H5c : There will be a statistically significant difference between the scores of healthy businesses and sick businesses on the *Use of Financial Management Tools scale*.

4.0 METHODOLOGY

4.1 STUDY DESIGN, POPULATION, & SAMPLE

Strategic Management, Marketing Orientation, Financial Management, Entrepreneurial Orientation and Small Business Health factors were studied in small businesses within the city of Saskatoon, Saskatchewan, Canada. Locally owned businesses operating in the retail, manufacturing, service, distributing sectors were included.

The initial sampling frame included the Saskatoon Tax Assessors list of privately and locally owned registered tax paying businesses. The total number of businesses in the City of Saskatoon at the time of data collection was 5731. Businesses were deemed ineligible and excluded if they were: (1) franchises; (2) financial institutions; (3) health facilities; (4) medical; dental, law, accounting, & business consulting practices; (5) restaurants; (6) holding companies; and (7) hotels/motels. In total, 2817 Saskatoon business fit into the sampling frame.

Key reasons for excluding these categories of businesses are directed by a head office outside of Saskatoon (i.e. franchises); offer professional services outside the scope of a typical small business (i.e. accountants, doctors, dentists, lawyers); and/or may skew the data towards a single industry (i.e. restaurants).

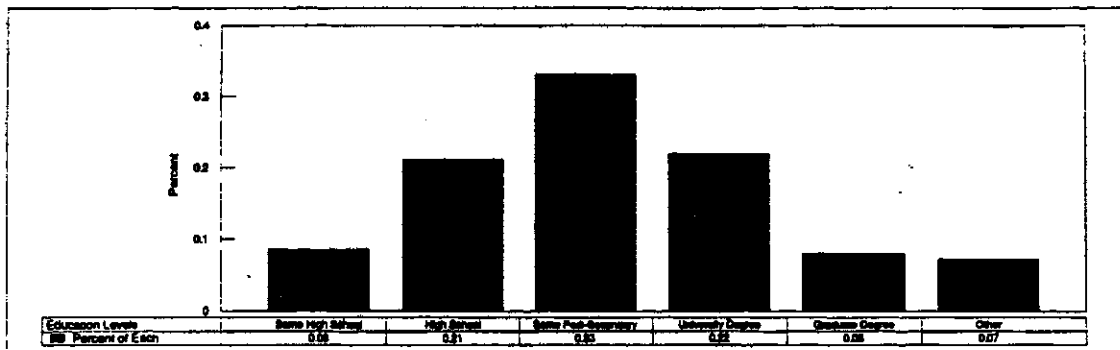
Of the eligible businesses, a simple random sample of 1000 was drawn from all sectors. Respondents were asked to return a completed questionnaire. The sample is considered to be highly representative of the small business community in Saskatoon due to the rigorous sampling techniques employed during the selection process.

A profile of the responding businesses (Exhibit 4.1) reveals that on average a Saskatoon small business is 16.33 years old and employs 2.48 managers, 9.25 full time and 7.19 part time staff members. The average owner/manager spends 52.29 hours per week on his/her business and 8.42 hours of that time planning. The greatest number of owners/managers had at least some post-secondary education (Exhibit 4.2).

Exhibit 4.1 The Profile of the Sample

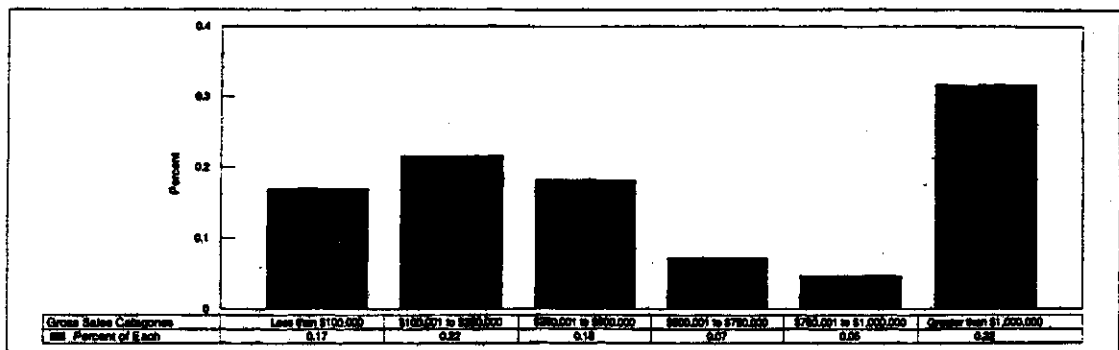
	<u>Mean</u>	<u>S. D</u>
Hours Spent on Business	52.29	14.62
Hours Spent Planning	8.42	7.45
Years in Operation	16.33	15.69
Years with Firm	10.69	8.45
Number of Managers	2.48	4.64
Number of Full-Time Emp.	9.25	18.7
Number of Part-Time Emp.	7.19	40.62
Number of Locations	1.48	1.75

Exhibit 4.2 Break-down of Owner/manager Educational Background



Also, an overwhelming majority of responding small businesses had sales last year of less than one million dollars (Exhibit 4.3). In addition, the majority of responding small firms were in the service or retail sectors (Exhibit 4.4). However, it should be noted that many businesses operate in more than one sector.

Exhibit 4.3 Break-down of Respondent Gross Sales Figures

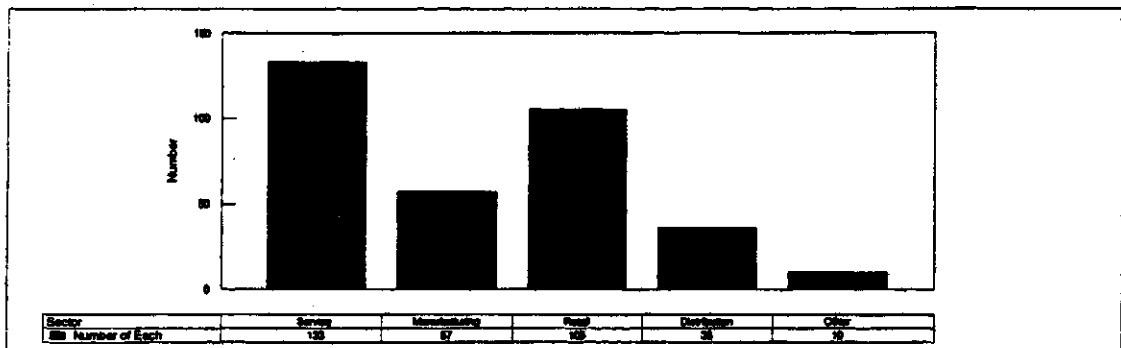


4.2 DATA COLLECTION

Data were collected by mail questionnaire (See Appendix B) using the Dillman (1978) data collection method as a model. Three questionnaire mail-outs were executed over a three month period. However, due to budgetary constraints, third class postage was used

instead of first class and/or registered mail as Dillman suggests. To compensate for this and help increase response rate, reminder post cards were sent to non-respondents after the first and second mail-outs (Appendix A), and a summary of the results was promised to each responding firm. (The schedule of mail-outs and their response rates may be seen in Exhibit 4.5)

Exhibit 4.4 Distribution of Respondent Business Sector Membership



Over the course of the data collection it was discovered that 9 companies had been selected twice; 11 were not at the address; 17 were judged ineligible; and 1 business owner was deceased. In all, 38 business were removed from the sample, bringing the total to 962. Usable responses totalled 239, resulting in a response rate of 24.84%. This rate compares favourably with

similar studies (Ackelsberg & Arlow, 1985; Miles & Arnold, 1991).

Exhibit 4.5 Mail-out Schedule and Response Rates

<u>Date</u>	<u>Mail-out</u>	<u>Responses</u>	<u>Cum. Rate</u>
Aug. 3, 1993	Initial Mail-out	153	15.90%
Aug. 24, 1993	1st reminder card		
Sept. 13, 1993	2nd Mail-out	53	21.41%
Sept. 27, 1993	2nd reminder card		
Nov 1, 1993	Final Mail-out	<u>33</u>	<u>24.84%</u>
Total		239	24.84%

The data collection instrument is quite detailed, lengthy and the font used is very small (Appendix B). It most likely took each respondent over 30 minutes to complete the questionnaire. This may account for many non-responses (Childers & Ferrell, 1979).

4.3 VARIABLES AND MEASURES

4.3.1 VARIABLES

4.3.1.1 DEPENDENT VARIABLE

The dependent variable is the health of the business based on changes in five specific measures: *sales*; *profit*; *gross margin*; *cash flow*; and *costs* over the past two years. BUSINESS HEALTH A consists of all five

measures, while BUSINESS HEALTH B consists of the first four measures (sales, profit, gross margin, cash flow) with costs excluded. Businesses that achieve negative scores in these areas indicate poor business health and potential business failure. Conversely, positive scores indicate excellent health and potential prosperity.

4.3.1.2 INDEPENDENT VARIABLES

The independent variables are Strategic Management, Marketing Orientation, Financial Management, and Entrepreneurial Orientation. Strategic Management, Marketing Orientation, Financial Management, and Entrepreneurial Orientation scales consist of items from the managerial and entrepreneurial literature. Businesses that achieve high scores in these areas are considered strong and those that score low are considered weak.

4.3.2 MEASURES

4.3.2.1 DEPENDENT VARIABLE

Respondents were asked to indicate the health of their business using five items: changes in sales, profit, gross margin, cash flow and costs (See Exhibit 4.6).

Exhibit 4.6 Business Health section of Questionnaire

Section V : Assessing Business Health

There are a number of vital signs that must be checked in order to assess the health of the individual business. This section, in a manner of speaking, takes the pulse of your firm.

What has been the change in each of the following indicators of business health for your firm over the past two years (please check only one for each)?

	Decreased by 20% or More	Decreased by 1% to 19%	No Change	Increased by 1 to 19%	Increased by 20% or More
Sales volume	[]	[]	[]	[]	[]
Profit	[]	[]	[]	[]	[]
Gross Margin	[]	[]	[]	[]	[]
Cash Flow	[]	[]	[]	[]	[]
Costs	[]	[]	[]	[]	[]

All items, except costs, were scored -2 for a decrease of more than 20%; -1 for a decrease of 1% to 19%; 0 for no change; +1 for an increase of 1% to 20%; and an +2 for an increase of 20% or more. Costs were scored in reverse with +2 for a decrease of more than 20%; +1 for a decrease of 1% to 19%; 0 for no change; -1 for an increase of 1% to 20%; and a -2 for an increase of 20% or more. The scores for each element of business health were summed to achieve a total business health rating called BUSINESS HEALTH A. Cronbach's reliability test of the business health construct generated an alpha score of 0.7146.

BUSINESS HEALTH B was created by removing costs from the equation. The scores from this second measure yielded a new alpha value of 0.8836. BUSINESS HEALTH B is the preferred index for business health in this study

because obviously costs are inherently accounted for by sales, gross margin, and profit.

4.3.2.2 INDEPENDENT VARIABLES

The variables of Strategic Management (Exhibit 4.7), Marketing Orientation (Exhibit 4.8), and Financial Management (Exhibit 4.9) were all constructed of items from the literature and presented to the respondent in the centre of the page. The importance of each task to the success of a business was measured by a five point

Exhibit 4.7 Strategic Management section of the questionnaire

Section I : Strategic Management

A review of Management literature indicates the importance of Market Planning, Financial Planning, Human Resource Planning, and Planning for Emergency Circumstances to business operations. The basis for these plans are in the feedback which can come from managers, employees, or customers. Feedback is the communication of favourable or unfavourable results to owners and top management. This section will explore the planning, implementation, and feedback practices of your firm.

For each listed task, circle the one appropriate response on the left and then again on the right.

How important to the success of a small business are the following strategic management tasks?

How often does your firm perform these strategic management tasks?

How important to the success of a small business are the following strategic management tasks?						How often does your firm perform these strategic management tasks?							
Not at all Important	Some What Important		Extremely Important		N/A								
1	2	3	4	5	0	Never	Annually	Semi- Annually	Quarterly	Monthly	Weekly	N/A	
						Setting Measurable Objectives	1	2	3	4	5	6	0
						Formulating Strategy	1	2	3	4	5	6	0
						Regular Management Meetings	1	2	3	4	5	6	0
						Marketing Planning	1	2	3	4	5	6	0
						Human Resource Planning	1	2	3	4	5	6	0
						Emergency Planning	1	2	3	4	5	6	0
						Financial Planning	1	2	3	4	5	6	0
						Use of Outside Advisors	1	2	3	4	5	6	0
						Employee training	1	2	3	4	5	6	0
						Delegation of Authority	1	2	3	4	5	6	0
						Use of Employee Feedback	1	2	3	4	5	6	0

likert scale on the left hand side of item descriptor. The frequency of performing each task or use of a particular tool was measured by a six point likert scale on the right hand side of the item descriptor.

Importance of Business Tools was measured on a five point Likert scale from "not at all important" scored as 1 to "extremely important" scored as 5, while "n/a" was given no score. Each of the items in all three indices

Exhibit 4.8 Marketing Orientation section of the questionnaire

Section II : Marketing Orientation

Marketing literature stresses the importance of tailoring the product that is offered to meet precise needs of specific customer groups. A firm must first select a specific market segment, thoroughly analyze the targeted segment, develop the marketing mix (product, price, promotion, distribution) strategy, and finally monitor how well the market needs are met through market position analysis. This section will examine the use of marketing practices in your own firm.

For each listed task, circle the one appropriate response on the left and then again on the right.

How important to the success of a small business are the execution of the following marketing tasks?						How often does your firm perform these marketing tasks?							
Not at all 1	2	Some What 3	4	Extremely 5	N/A 0	Never	Annually	Semi- Annually	Quarterly	Monthly	Weekly	N/A 0	
1	2	3	4	5	0	Identification of Target Market(s)	1	2	3	4	5	6	0
1	2	3	4	5	0	Determining Customer Needs	1	2	3	4	5	6	0
1	2	3	4	5	0	Analyzing Ability to Meet Customer Needs	1	2	3	4	5	6	0
1	2	3	4	5	0	Designing Products/Services	1	2	3	4	5	6	0
1	2	3	4	5	0	Setting Pricing Strategy	1	2	3	4	5	6	0
1	2	3	4	5	0	Establishing Promotional Strategy	1	2	3	4	5	6	0
1	2	3	4	5	0	Securing Distribution Channels	1	2	3	4	5	6	0
1	2	3	4	5	0	Market Forecasting	1	2	3	4	5	6	0
1	2	3	4	5	0	Meeting Customer Needs	1	2	3	4	5	6	0
1	2	3	4	5	0	Recognizing Shifts in Consumer Taste	1	2	3	4	5	6	0
1	2	3	4	5	0	Monitoring Competitors	1	2	3	4	5	6	0
1	2	3	4	5	0	Evaluating Market Share	1	2	3	4	5	6	0
1	2	3	4	5	0	Adjusting Marketing Strategy as Required	1	2	3	4	5	6	0

(Strategic Management, Marketing Orientation, & Financial Management) were summed to achieve ratings for each business. The alpha values for the indices were 0.8443 (Strategic Management), 0.8653 (Marketing Orientation), 0.8326 (Financial Management).

Business Tool Use was measured on a six point Likert scale. The value of "never" scored 1, "annually" scored 2, "bi-annually" scored 3, "quarterly" scored 4, "monthly" scored 5, "weekly" scored 6, while "n/a" was

Exhibit 4.9 Financial Management section of the questionnaire

Section III: Financial Management													
Studies have shown that small businesses use many financial techniques to monitor the financial health of their firms. These tools include regular review of the firm through projected or proforma statements, maintenance of cash flow, financial ratio analysis (accounts receivable maintenance, inventory management), and break even analysis. This section will investigate the use of these financial tools in your business.													
For each listed task, circle the one appropriate response on the left and then again on the right.													
How important to the success of a small business are the following financial tasks?							How often does your firm use these financial tasks?						
Not at all important 1	2	Some What important 3	4	Extremely important 5	N/A 0		Never	Annually	Semi- Annually	Quarterly	Monthly	Weekly	N/A 0
1	2	3	4	5	0	Preparing Financial Statements	1	2	3	4	5	6	0
1	2	3	4	5	0	Preparing a Budget	1	2	3	4	5	6	0
1	2	3	4	5	0	Analyzing Financial Statements	1	2	3	4	5	6	0
1	2	3	4	5	0	Accounts Receivable Maintenance	1	2	3	4	5	6	0
1	2	3	4	5	0	Maintaining Cash Flow	1	2	3	4	5	6	0
1	2	3	4	5	0	Inventory Management	1	2	3	4	5	6	0
1	2	3	4	5	0	Determining the Break Even Point	1	2	3	4	5	6	0
1	2	3	4	5	0	Analyzing differences between Planned and Actual Financial Results	1	2	3	4	5	6	0
How important to the success of a small business are the these types of ratios?							How often does your firm use these ratios for your own analysis?						
Not at all important 1	2	Some What important 3	4	Extremely important 5	N/A 0		Never	Annually	Semi- Annually	Quarterly	Monthly	Weekly	N/A 0
1	2	3	4	5	0	Liquidity Ratios	1	2	3	4	5	6	0
1	2	3	4	5	0	Turnover Ratios	1	2	3	4	5	6	0
1	2	3	4	5	0	Profitability Ratios	1	2	3	4	5	6	0
1	2	3	4	5	0	Debt and Asset Ratios	1	2	3	4	5	6	0

given no score. Each of the items in all three indices (Strategic Management, Marketing Orientation, & Financial Management) were summed to achieve ratings for each business. The alpha values for these indices were 0.8065 (Strategic Management), 0.8524 (Marketing Orientation), and 0.8476 (Financial Management).

Entrepreneurial Orientation (Exhibit 4.10) was constructed with items selected from the entrepreneurial and managerial literature. As before, importance to business success was measured on the left hand side of the items. However, the basis of how well each respondent fit the Entrepreneurial archetype was measured on the right hand side with the question "How well do these characteristics describe you with respect to the role you play within your own business?" (Exhibit 4.10). A five point likert scale was used.

Incorporated in the Entrepreneurial Orientation indexes (importance & fit) are six items drawn specifically from the entrepreneurial literature (marked by an asterisk [*] in Exhibit 4.10; asterisks did not appear in the actual instrument). These six items were used to derive the Entrepreneurial Orientation importance and fit indices.

The remaining six items are characteristics of small business managers. They are related to entrepreneurial characteristics, but collected from the managerial literature. All twelve items were used to construct the Managerial Influence importance and fit indices. They were included to contrast entrepreneurs with small business owners. In addition they were included to prevent the respondents from rating themselves artificially high on the entrepreneurial items causing a "halo" effect in the data.

Exhibit 4.10 Entrepreneurial Orientation section of the questionnaire

Section IV : Managerial Influence

Managers are integral to the success of a business. They not only set the goals and make the plans, but carry them out as well. Managerial style has a definite influence on business results. This section asks your opinion on managerial nature and motivation.

For each listed characteristic, circle the one appropriate response on the left and then again on the right.

How important are the following characteristics of a business person to the success of their respective business?

How well do these characteristics describe you with respect to the role you play within your own business?

Not at all Important	1	2	Some What Important	3	4	Extremely Important	5	N/A	0		Very Poor	1	2	Some What Well	3	4	Very Well	5	N/A	0
	1	2		3	4		5		0	Opportunity Seeker*		1	2		3	4		5		0
	1	2		3	4		5		0	Rational		1	2		3	4		5		0
	1	2		3	4		5		0	Total Control*		1	2		3	4		5		0
	1	2		3	4		5		0	Innovative		1	2		3	4		5		0
	1	2		3	4		5		0	Need to Achieve Goals*		1	2		3	4		5		0
	1	2		3	4		5		0	Systematic		1	2		3	4		5		0
	1	2		3	4		5		0	Independent Minded*		1	2		3	4		5		0
	1	2		3	4		5		0	Adaptable		1	2		3	4		5		0
	1	2		3	4		5		0	Risk Taker*		1	2		3	4		5		0
	1	2		3	4		5		0	Experienced		1	2		3	4		5		0
	1	2		3	4		5		0	Innovative*		1	2		3	4		5		0
	1	2		3	4		5		0	Growth Oriented		1	2		3	4		5		0

In exactly the same fashion as the measure of importance for the other indices, a five point Likert scale was used and the scoring ranged from "not at all important" = 1 to "extremely important" = 5, while "n/a" was given no score. The alpha value for Entrepreneurial Orientation (imp) (Opportunity Seeker, Total Control, Need to Achieve Goals, Independent Minded, Risk Taker, & Innovator) was 0.7955.

For the entrepreneurial fit scale, a five point Likert scale was used where 1="very poor", 2="poor", 3="some what", 4="well", 5="very well", & 0="n/a". The alpha value for Entrepreneurial (fit) (Opportunity Seeker, Total Control, Need to Achieve Goals, Independent Minded, Risk Taker, & Innovator) was 0.8521.

Based on the same scaling, but including all the entrepreneurial and managerial items, the Managerial Influence (imp) construct featured an alpha value of 0.8947. Similarly, the Managerial Influence (fit) index exhibited an alpha value of 0.9163.

It should be noted that since the Managerial Influence indices are not of primary interest to this thesis, they will not be used to investigate the

hypotheses. However, they will be examined in supplementary fashion.

4.2.3.3 IMPORTANCE vs. USE AND FIT

Owners/managers are asked to rate business tool and entrepreneurial items on their importance to business success. The importance rating represents the beliefs of a particular owner/manager. However, these importance ratings or beliefs do not indicate their actual use of business tools and their actual entrepreneurial traits. In contrast, how often owner/managers use business tools and/or how well they describe their fit with the entrepreneurial traits indicates consistency of performance and entrepreneurial propensity respectively. The major difference between the two types of scales is that importance measures *intentions* while the other measures owner/manager actions and traits.

4.3.2.4 RELIABILITY

All of the Cronbach's alpha values calculated (as previously listed on pages 47-53) for the scales to be used in this study were above the suggested level of 0.7 (Nunnally, 1978). This indicates that they are of substantive reliability and acceptable for further statistical testing.

4.3.2.5 VALIDITY

The obvious method for validating the data collected in this study is through *Content Validity*. Content validity is "...the extent to which an empirical measurement reflects a specific domain of content" (Carmines & Zeller, 1990, p. 20). In essence, this means that the questions asked in a study must be consistent with the topics being researched. As indicated by the literature review, all the items used to develop the scales for Strategic Management, Marketing Orientation, Financial Management, and Entrepreneurial Orientation were drawn from the articles and books of prominent researchers.

To further validate the data collection instrument, it was pre-tested with a number of business experts in Saskatoon. This pre-test included small business owners, professors at the University of Saskatchewan, and officials at the Saskatoon Chamber of Commerce and Saskatoon Economic Development. Recommendations made by these experts were incorporated into the final draft of the questionnaire (Appendix B).

4.4 DATA ANALYSIS

4.4.1 THE IMPORTANCE OF BUSINESS TOOLS AND BUSINESS HEALTH

- H1a : Small business owners/managers who score high on the *Importance of Strategic Management Tools* scale, will also score high on the *Business Health* scale.
- H1b : Small business owners/managers who score high on the *Importance of Marketing Orientation Tools* scale, will also score high on the *Business Health* scale.
- H1c : Small business owners/managers who score high on the *Importance of Financial Management Tools* scale, will also score high on the *Business Health* scale.

The chief method of analysis for measuring the variance in business health explained by the tools of business is *Simple Linear Regression*. The Regression analysis will indicate the specific variation in business health explained by the tools of business.

Regression will be used because it matches the specific variations in Business Health with specific variations in the Tools of Business. Regression is the appropriate procedure when working with continuous scales because the resulting model predicts values on a continuous scale. Since the scales used in this study measure to the importance and use of business tools are

equal appearing interval scales, and business health is continuous, this technique best fits the data.

The key statistics that are reported and interpreted from the Regression analysis are the *Standardized Regression Coefficients (Beta)* and R^2 . Regression coefficients (B) are used to calculate the predicted values of the regression model. Standardized regression coefficients (Beta) are the same coefficients controlled for the variable means and standard deviations. Standardized coefficients are easier to compare within themselves. For simple linear regression, the Beta coefficients are the same as the coefficients of simple correlation between the independent and dependent variables (Neter et al., 1989). R^2 is the coefficient of simple determination. It is the square of the coefficient of multiple correlation which "...measures the proportionate reduction of total variation in [the dependent variable] associated with the set of [independent variables]" (Neter et al., 1989, p. 241). Unlike correlation coefficients, which measure the strength of relationship between a dependent and independent variable, the coefficient of determination measures the precise variation in the dependent variable caused by an independent variable.

The exact regression procedure used required each index to be individually and separately forced into a simple linear regression equation. The resulting standardized beta, coefficient of determination, and significance level for each equation allowed each hypotheses to be evaluated. The indices were considered significant if they exhibited significance levels at or below 0.05 upon entering the simple linear equations. To aid in the interpretation and evaluation, each of the items from the indices were also individually and separately entered into simple linear equations.

4.4.2 THE IMPORTANCE OF ENTREPRENEURIAL TRAITS AND BUSINESS HEALTH

H2 : Small business owners/managers who score high on the *Importance of Entrepreneurial Traits scale*, will also score high on the *Business Health scale*.

In much the same manner as hypothesis one, the relationship of Entrepreneurial Orientation (imp) to Business Health was measured through *Simple Linear Regression*. The reasons for choosing these analysis procedures is the same as for hypothesis one.

4.4.3 OWNER/MANAGER FIT TO ENTREPRENEURIAL TRAITS AND BUSINESS HEALTH

H3 : Small business owners/managers who score high on the *Owner/Manager Fit to Entrepreneurial Traits scale*, will also score high on the *Business Health scale*.

The statistical method of analysis for owner/manager fit to Entrepreneurial Orientation and their effect on Business Health were carried out in an identical fashion to hypotheses one and two.

4.4.4 THE ASSOCIATION BETWEEN ENTREPRENEURSHIP AND THE TOOLS OF BUSINESS

H4a : Small business owners/managers who score high on the *Importance of Entrepreneurial Traits scale*, will score low on the *Importance of Strategic Management Tools scale*.

H4b : Small business owners/managers who score high on the *Importance of Entrepreneurial Traits scale*, will score low on the *Importance of Marketing Orientation Tools scale*.

H4c : Small business owners/managers who score high on the *Importance of Entrepreneurial Traits scale*, will score low on the *Importance of Financial Management Tools scale*.

The relationships between Entrepreneurial Orientation and the tools of business were tested with *Pearson Product-Moment Correlations*. Another option would have been to use Spearman Rank Correlation procedure. However, the Spearman procedure requires rank order data. Since this study collected data on equal appearing interval and continuous scales, the Spearman procedure

does not fit the data as well as the Pearson procedure. Therefore, the Pearson Product-Moment is the probably the strongest correlation procedure available because it fits best with the data analyzed.

Regression Analysis was not be used for testing this hypothesis because a causal relationship is not being hypothesised; rather, it is the strength and direction of the association that is being explored.

4.4.5 THE DIFFERENCE IN THE USE OF BUSINESS TOOLS BETWEEN HEALTHY AND SICK BUSINESSES

- H5a :** There will be a statistically significant difference between the scores of healthy businesses and sick businesses on the *Use of Strategic Management Tools scale*.
- H5b :** There will be a statistically significant difference between the scores of healthy businesses and sick businesses on the *Use of Marketing Orientation Tools scale*.
- H5c :** There will be a statistically significant difference between the scores of healthy businesses and sick businesses on the *Use of Financial Management Tools scale*.

The non-parametric *Mann-Whitney U test* was used to test for significant differences between the practices of healthy and sick businesses. The Mann-Whitney U test tests if the two related samples are from the same population (SPSS^x Users Guide, 1988). Mann-Whitney U is

probably better than a T-test of the means because it is a test of the two related sample distributions as opposed to simply testing the means. A similar non-parametric test, the Kolmogorov-Smirnov test, is more powerful and better suited to investigating the hypothesis because it is a test of the homogeneity between the two related samples. However, there are not enough cases in this study to ensure reliable results with Kolmogorov-Smirnov and so the Mann-Whitney U test is considered the best test available (SPSS* Users Guide, 1988).

4.5 BUILDING A PREDICTIVE MODEL OF BUSINESS HEALTH

Discriminant Analysis will be the statistical procedure used to build a predictive model of business health. The Discriminant analysis builds a model of business health based on differences between sick and healthy businesses, allowing business health to be predicted by group (i.e. sick or healthy).

The Discriminant procedure is computationally different from regression. In a regression model, the ordinary-least-squares method is used to derive the model (Neter et al., 1989). In discriminant analysis the dependent variable is required to be divided into homogeneous categories or groups (i.e. sick or healthy). In addition, items enter the discriminant model based on

the prior probabilities of items belonging to the sick or healthy groups.

Discriminant Analysis is poor at predicting the specific variations in business health, which is best done by multiple regression analysis. However, it is the best procedure for model building when predicting a dichotomous outcome (sick or healthy). This is corroborated by a number of studies such as Altman (1968) and Ruckert (1992) who used discriminant analysis to build predictive models of business success.

For this procedure, the continuous variable business health, will be divided into a dichotomy, healthy or sick. Sick businesses will be those that achieved a score of less than or equal to zero indicating stagnation or negative growth. Healthy businesses will be those businesses that score higher than zero, indicating positive growth. In addition, variables enter the equation based on their statistically significant difference between the groups. A prediction result would only be in the form of *sick* or *healthy*, and there is no differentiation between more or less sick/healthy.

The main statistics reported and interpreted from the discriminant procedure are the *Standardized Discriminant*

Function Coefficients, Wilks' Lambda, and the Canonical Correlation Coefficient. The discriminant function coefficients are used to calculate predicted values for the model. Standardized discriminant function coefficients are the same coefficients controlled for the variable means and standard deviations, allowing their magnitudes to be compared. Wilks' Lambda "...is the ratio of the within-groups sum of squares to the total sum of squares" (Norusis, 1985, p. 90). For each item, the closer lambda is to 1, the smaller the difference between the groups (sick or healthy). The canonical correlation coefficient "...is a measure of the degree of association between the discriminant scores and the groups... [It] represents the proportion of total variance attributable to differences among the groups" (Norusis, 1985, p. 89).

The procedure for building the model began with separate analysis on each of the importance indices (Strategic Management, Marketing Orientation, Financial Management, & Entrepreneurial Orientation). This is followed by including all the items which entered from each index into a single test. The variables enter in a step-wise fashion constructing the *Model of Business Health*.

5.0 RESULTS

5.1 THE IMPORTANCE OF BUSINESS TOOLS AND BUSINESS HEALTH

5.1.1 STRATEGIC MANAGEMENT AND BUSINESS HEALTH

Small business owners/managers that scored high on the Strategic Management importance scale tended to score high on Business Health. The Strategic Management (imp) index is significantly ($p < 0.01$) and positively associated with business health. However, it only accounts for a small portion of the variance in Business Health yielding an R^2 of 3.724% (Table 5.1). Similarly, the individual Strategic Management items of *Setting Measurable Objectives* ($p < 0.05$), *Formulating Strategy* ($p < 0.05$), *Use of Outside Advisors* ($p < 0.05$), *Delegation of Authority* ($p < 0.01$), and *Use of Employee Feedback* ($p < 0.01$) are significant. However, few individually account for more than 3% of the variation in business health.

Table 5.1 Simple Linear Regression results for Strategic Management (Imp)

	Simple Linear Regression		
	Beta	R sq	F Value
STRATEGIC MANAGEMENT	0.1930	0.03724	8.70296**
Setting Measurable Objectives	0.1294	0.01675	4.01972*
Formulating Strategy	0.1584	0.02510	6.02409*
Regular Management Meetings	0.0568	0.00322	0.75972
Marketing Planning	0.1039	0.01078	0.25621
Human Resource Planning	0.0847	0.00717	1.70445
Emergency Planning	0.1131	0.01280	2.99532
Financial Planning	0.0572	0.00328	0.77550
Use of Outside Advisors	0.1289	0.01660	3.96797*
Employee Training	0.1206	0.01456	3.48572
Delegation of Authority	0.1929	0.03721	9.12193**
Use of Employee Feedback	0.1851	0.03425	8.33300**

*p < 0.05 **p < 0.01

5.1.2 MARKETING ORIENTATION AND BUSINESS HEALTH

Small business owners/managers who scored high on Marketing Orientation Importance scale tended to score high on Business Health. The Marketing Orientation index is positively and significantly related to business health ($p < 0.01$). However, it only explains 3.4% of the business health variance (Table 5.2). The individual Marketing Orientation Importance items are also all positively associated with business health, but only four are significantly related. *Identification of Target Markets* ($p < 0.05$), *Designing Products/Services* ($p < 0.01$), *Market Forecasting* ($p < 0.05$), and *Recognizing Shifts in Consumer Taste* ($p < 0.05$) all significantly determine business health, but very weakly.

Table 5.2 Simple Linear Regression results for Marketing Orientation (Imp)

	Simple Linear Regression		
	Beta	R sq	F Value
MARKETING ORIENTATION	0.1846	0.03409	7.69318**
Identification of Target Market	0.1422	0.02022	4.80752*
Determining Customer Needs	0.0426	0.00181	0.42704
Analyzing Ability to Meet Customer Needs	0.1013	0.01027	2.42695
Designing Products/Services	0.1965	0.03862	9.31886**
Setting Pricing Strategy	0.0753	0.00567	1.32884
Establishing Promotional Strategy	0.1246	0.01553	3.68023
Securing Distribution Channels	0.1126	0.12690	2.94240
Market Forecasting	0.1433	0.02250	4.83979*
Meeting Customer Needs	0.0841	0.00707	1.67442
Recognizing Shifts in Consumer Taste	0.1308	0.01712	4.02337*
Monitoring Competitors	0.0227	0.00052	0.12010
Evaluating Market Share	0.1545	0.02386	5.57199*
Adjusting Marketing Strategy as Required	0.1603	0.02571	6.08492*

*p < 0.05 ** p < 0.01

5.1.3 FINANCIAL MANAGEMENT AND BUSINESS HEALTH

Small business owners/managers who scored higher on the Financial Management Importance index did not necessarily score high on Business Health. The index positively related to business health, but not significantly (Table 5.3). The index reported an R² of only 1.66%. Individually, the items included in the index explain only minute variations in business health. Only *Accounts Receivable Maintenance* (p < 0.05) was significant, accounting for a mere 2.27% of the change in business health.

Table 5.3 Simple Linear Regression results for Financial Management (Imp)

	Simple Linear Regression		
	Beta	R sq	F Value
FINANCIAL MANAGEMENT	0.1288	0.01659	3.79621
Preparing Financial Statements	0.1215	0.01475	3.51916
Preparing a Budget	0.0847	0.00718	1.70680
Analyzing Financial Statements	0.0852	0.00727	1.71272
Accounts Receivable Maintenance	0.1508	0.02274	5.44544*
Maintaining Cash Flow	0.0669	0.00447	1.05561
Inventory Management	0.0682	0.00465	1.09840
Determining the Break Even Point	-0.0200	0.00000	0.00097
Analyzing Variances	0.1161	0.01347	3.18111
Liquidity Ratios	0.0516	0.00266	0.61717
Turnover Ratios	0.0728	0.00530	1.23648
Profitability Ratios	0.1097	0.01230	2.83756
Debt and Asset Ratios	0.0182	0.00033	0.07690

*p < 0.05 **p < 0.01

5.2 THE IMPORTANCE OF ENTREPRENEURIAL TRAITS AND BUSINESS HEALTH

Small business owners/managers who scored high on Entrepreneurial Orientation (imp) tended to score high on Business Health. The Entrepreneurial Orientation ($p < 0.01$) index positively and significantly influenced Business Health (Table 5.4) with a coefficient of determination of 2.87%. The individual entrepreneurial items were all found to be positively related to business health with the exception of Total Control, for which the relationship was negative, but insignificant.

Opportunity Seeker ($p < 0.05$), *Need to Achieve Goals* ($p < 0.05$), *Independent Minded* ($p < 0.01$), *Risk Taker* ($p < 0.01$), and *Innovator* ($p < 0.05$) were the entrepreneurial traits that were found to be significantly related to

business health. The variations in business health they explain are 2.06%, 1.77%, 3.34%, 3.83%, and 2.06% respectively.

Table 5.4 Simple Linear Regression for Entrepreneurial Orientation (imp) and Business Health.

	Simple Linear Regression		
	Beta	R sq	F Value
ENTREPRENEURIAL ORIENTATION (imp)	0.1695	0.02872	6.94868**
Opportunity Seeker	0.1437	0.02064	4.97323*
Total Control	-0.0689	0.00474	1.12514
Need to Achieve Goals	0.1331	0.01771	4.25583*
Independent Minded	0.1838	0.03377	8.24946**
Risk Taker	0.1957	0.03829	9.35681**
Innovator	0.1436	0.02061	4.96563*

*p < 0.05 **p < 0.01

5.3 OWNER/MANAGER FIT TO ENTREPRENEURIAL TRAITS AND BUSINESS HEALTH

Small business owners/managers who scored high on the Owner/manager Fit to Entrepreneurial Orientation scale tended to score higher on Business Health. The Entrepreneurial Traits (fit) scale was found to be positively associated with business health and significant at $p < 0.01$ (Table 5.5). It explains 4.18% of the variance in business health. The specific Entrepreneurial traits that were found to be significant are *Opportunity Seeker* ($p < 0.01$), *Need to Achieve Goals* ($p < 0.01$), *Independent Minded* ($p < 0.01$), and *Innovator*

($p < 0.01$). The R^2 for these entrepreneurial items are 5.27%, 3.28%, 5.19%, and 4.65% respectively.

Table 5.5 Simple Linear Regression for Entrepreneurial Orientation (fit) and Business Health

	Simple Linear Regression		
	Beta	R sq	F Value
ENTREPRENEURIAL ORIENTATION (fit)	0.2044	0.04178	10.07158**
Opportunity Seeker	0.2295	0.05267	12.89764**
Total Control	0.0010	0.00000	0.00025
Need to Achieve Goals	0.1810	0.03276	7.85793**
Independent Minded	0.2278	0.05191	12.70236**
Risk Taker	0.0777	0.00604	1.40914
Innovator	0.2155	0.04646	11.25551**

* $p < 0.05$ ** $p < 0.01$

5.4 THE ASSOCIATION BETWEEN ENTREPRENEURSHIP AND THE TOOLS OF BUSINESS

5.4.1 ENTREPRENEURSHIP AND STRATEGIC MANAGEMENT

There is a positive association between Entrepreneurial Orientation (imp) and Strategic Management (imp) (Table 5.6). Entrepreneurial Orientation is related positively and significantly ($p < 0.01$) to Strategic Management. The strength of the relationship is 0.3124.

Table 5.6 Correlations between Entrepreneurial Orientation (Imp) and the Tools of Business (Imp)

Pearson Correlations Between the Importance Scales

	1	2	3	4	5
1 Strategic Management	1.0000				
2 Marketing Orientation	0.5606**	1.0000			
3 Financial Management	0.5207**	0.4523**	1.0000		
4 Entrepreneurial Orientation	0.3124**	0.3232**	0.3126**	1.0000	
5 Business Health	0.1930**	0.1846**	0.1288	0.1695**	1.0000

*p < 0.05 **p < 0.01

When examining the correlations of the individual items (Appendix C) a number of relationships stand out. *Opportunity Seeker* is most correlated to *Market Planning* at 0.2365. *Control* is negatively, but not significantly, related to *Regular Management Meetings*, *Market Planning*, *Emergency Planning*, *Use of Outside Advisors*, and *Use of Employee Feedback*. *The Need to Achieve Goals* and *Setting Measurable Objectives* have a very strong association (0.4247). *Independent Minded* is significantly correlated only to *Delegation of Authority* with a coefficient of 0.1434. *Risk Taker* is significantly associated with *Setting Measurable Objectives* (0.2333) and *Formulating Strategy* (0.1525), but not related to any formalized planning activities. *Innovator* is most strongly correlated to *Delegation of Authority* (0.4197), *Employee*

Training (0.3183), and *Market Planning* (0.3019), but not significantly related to *Financial Planning*.

5.4.2 ENTREPRENEURSHIP AND MARKETING ORIENTATION

There is a positive association between Entrepreneurial Orientation (imp) and Marketing Orientation (imp) (Table 5.6). Entrepreneurial Orientation is positively ($p < 0.01$) correlated to Marketing Orientation with a correlation coefficient of 0.3232.

The correlations between the individual Entrepreneurial and Marketing items reveal a number of significant relationships (Appendix C). *Opportunity Seeker* is most correlated with *Determining Customer Needs* (0.3158). There is a weak, but significant, relationship between *Control* and *Analyzing Ability to Meet Customer Needs* (0.1349). However, *Control* is not significantly associated with any other items, which includes negative relationships with *Identification of Target Markets*, *Designing Products/Services*, and *Establishing Promotional Strategy*.

The *Need to Achieve Goals* is most strongly correlated to *Evaluating Market Share* with a coefficient of 0.3345. *Independent Minded* is most strongly associated with

Analyzing Ability to Meet Customer Needs (0.2142). There is a 0.2258 correlation between *Risk Taker* and *Identification of Target Markets*. *Innovator* is related to designing products/services with a correlation of 0.2399, however, the strongest correlation is with *Evaluating Market Share* at 0.4030.

5.4.3 ENTREPRENEURSHIP AND FINANCIAL MANAGEMENT

There is a positive association between Entrepreneurship (imp) and Financial Management (imp) (Table 5.6). Entrepreneurial Orientation and Financial Management are positively and significantly ($p < 0.01$) correlated at 0.3126.

In general, the correlations between the individual Entrepreneurship and Financial Management items are lower than with Strategic Management and Marketing Orientation (Appendix C). *Opportunity Seeker* correlates at 0.2524 and 0.2247 with *Profitability Ratios* and *Accounts Receivable Maintenance* respectively. *Control* is associated with *Determining the Break Even Point* with a coefficient of 0.2151, however, it is not significantly associated with any other finance items. However, the correlation coefficients between *Preparing a Budget* and *Turnover Ratios* and *Control* are negative.

The *Need to Achieve Goals* is most strongly associated with *Preparing a Budget* (0.2975), *Analyzing Variances* (0.3341), and *Profitability Ratio Analysis* (0.3567). *Independent Minded* is significantly related only to *Accounts Receivable Maintenance* at 0.2335. However, *Preparing Financial Statements*, *Preparing a Budget*, *Analyzing Financial Statements*, *Inventory Management*, and *Analyzing Variances* all have negative coefficients.

Risk Taker is correlated most strongly with *Profitability Ratios Analysis* (0.2360) and *Accounts Receivable Maintenance* (0.2058). *Innovator* is weakly, but significantly, correlated to all Financial Management items with the exception of *Maintaining Cash Flow*.

5.5 THE DIFFERENCE IN THE USE OF BUSINESS TOOLS BETWEEN HEALTHY AND SICK BUSINESSES

5.5.1 STRATEGIC MANAGEMENT FOR HEALTHY AND SICK

There is a statistically significant difference between how often sick and healthy business use Strategic Management Tools. The Mann-Whitney U test revealed that healthy businesses score higher on Strategic Management scale than sick businesses ($p < 0.05$) (Table 5.7). More specifically, healthy business score higher on *formulating strategy* ($p < 0.01$), *use of outside advisors*

($p < 0.05$), and *employee training* ($p < 0.05$) sick businesses.

Table 5.7 Mann-Whitney U test of the Difference Between Healthy and Sick Businesses Use of Strategic Management Tools

	Total Sample (n=239)		Descriptive Statistics Healthy (n=154)		Sick (n=85)		Mann-Whitney U test Z Value and Sig.
	Mean	S.D.	Mean	S.D.	Mean	S.D.	
	STRATEGIC MANAGEMENT	37.21	12.05	38.91	11.03	34.13	
Setting Measurable Objectives	3.47	1.66	3.56	1.65	3.32	1.67	-1.0387
Formulating Strategy	3.83	1.81	4.05	1.47	3.41	1.76	-2.6674**
Regular Management Meetings	3.63	2.18	3.72	2.19	3.45	2.18	-0.9268
Marketing Planning	3.60	1.65	3.75	1.64	3.31	1.65	-1.9468
Human Resource Planning	2.68	1.68	2.81	1.88	2.45	1.82	-1.4124
Emergency Planning	2.24	1.79	2.23	1.71	2.24	1.93	-0.2238
Financial Planning	3.99	1.55	4.12	1.52	3.77	1.58	-1.7238
Use of Outside Advisors	2.26	1.47	2.44	1.56	1.93	1.23	-2.1277*
Employee Training	3.32	2.05	3.51	2.05	2.96	2.01	-2.0368*
Delegation of Authority	3.74	2.34	3.89	2.30	3.49	2.41	-1.0573
Use of Employee Feedback	4.51	2.09	4.71	1.95	4.14	2.30	-1.5790

* $p < 0.05$ ** $p < 0.01$
 The Mann-Whitney U Test is two tail Z test of the differences in the medians of the two groups.

5.5.2 MARKETING ORIENTATION FOR HEALTHY AND SICK

There is a statistically significant difference between how often sick and healthy businesses use Marketing Orientation Tools. The Mann-Whitney U test reveals that healthy businesses score higher on the Use of Marketing Orientation Tools Scale than sick businesses ($p < 0.05$) (Table 5.8). More specifically, healthy business score higher on *Securing Distribution Channels* ($p < 0.05$), *Market Forecasting* ($p < 0.01$), *Recognizing Shifts in Consumer Taste* ($p < 0.05$), and *Evaluating Market Share* ($p < 0.05$).

Table 5.8 Mann-Whitney U test of the Difference Between Healthy and Sick Businesses Use of Marketing Orientation Tools

	Total Sample (n=239)		Descriptive Statistics Healthy (n=154)		Sick (n=85)		Mann-Whitney U test Z Value and Sig.
	Mean	S.D.	Mean	S.D.	Mean	S.D.	
	MARKETING ORIENTATION	48.09	13.37	49.72	13.21	45.28	
Identification of Target Market	3.58	1.78	3.62	1.79	3.55	1.73	-0.3231
Determining Customer Needs	4.71	1.53	4.84	1.45	4.46	1.64	-1.6672
Analyzing Ability to Meet Customer Needs	4.51	1.65	4.50	1.70	4.52	1.56	-0.2846
Designing Products/Services	3.48	2.08	3.67	2.00	3.17	2.18	-1.6496
Setting Pricing Strategy	3.92	1.75	3.93	1.72	3.89	1.80	-0.1084
Establishing Promotional Strategy	3.44	1.75	3.62	1.66	3.14	1.84	-1.9046
Securing Distribution Channels	2.30	2.10	2.54	2.17	1.83	1.87	-2.2962*
Market Forecasting	2.90	1.77	3.16	1.67	2.39	1.83	-3.1331**
Meeting Customer Needs	5.25	1.34	5.27	1.37	5.21	1.31	-0.8982
Recognizing Shifts in Consumer Taste	3.47	2.01	3.69	1.93	3.11	2.10	-1.9916*
Monitoring Competitors	3.88	1.83	4.03	1.77	3.81	1.92	-1.4836
Evaluating Market Share	2.62	1.69	2.81	1.58	2.31	1.83	-2.3468*
Adjusting Marketing Strategy as Required	3.73	1.68	3.84	1.85	3.50	1.92	-1.3090

* p < 0.05 ** p < 0.01

The Mann-Whitney U Test is two tail Z test of the differences in the medians of the two groups.

5.5.3 FINANCIAL MANAGEMENT FOR HEALTHY AND SICK

There is no difference between how often healthy and sick business use Financial Management Tools. The Mann-Whitney U test of the differences reveals that any differences in the scores of health and sick, for the Use of Financial Management Tools scale, are not statistically significant (Table 5.9). In addition, the use of individual items on the Financial Management scale also proved not to differ between sick and healthy businesses.

Table 5.9 Mann-Whitney U test of the Difference Between Healthy and Sick Businesses Use of Financial Management Tools

	Total Sample (n=239)		Descriptive Statistics Healthy (n=154)		Sick (n=85)		Mann-Whitney U test Z Value and Sig.
	Mean	S.D.	Mean	S.D.	Mean	S.D.	
FINANCIAL MANAGEMENT	43.85	12.50	44.51	12.23	42.16	12.90	-1.3514
Preparing Financial Statements	3.76	1.49	3.82	1.46	3.65	1.55	-0.7425
Preparing a Budget	2.73	1.48	2.81	1.44	2.59	1.56	-1.2933
Analyzing Financial Statements	3.77	1.51	3.82	1.48	3.66	1.57	-0.6605
Accounts Receivable Maintenance	4.83	1.81	4.80	1.85	4.33	2.05	-1.4837
Maintaining Cash Flow	5.19	1.27	5.29	1.19	5.02	1.39	-1.7727
Inventory Management	4.02	1.99	4.08	2.03	3.80	1.93	-0.825
Determining the Break Even Point	3.50	1.90	3.44	1.97	3.58	1.79	-0.4284
Analyzing Variances	3.44	1.73	3.54	1.69	3.27	1.79	-1.0132
Liquidity Ratios	3.01	1.93	3.16	1.90	2.77	1.94	-1.3913
Turnover Ratios	2.97	1.89	3.11	1.87	2.75	1.91	-1.3653
Profitability Ratios	3.81	1.74	3.94	1.69	3.61	1.78	-1.3297
Debt and Asset Ratios	2.89	1.72	2.93	1.71	2.86	1.73	-0.3163

* p < 0.05 ** p < 0.01

The Mann-Whitney U Test is two tail Z test of the differences in the medians of the two groups.

5.6 CONTROL VARIABLE FINDINGS

In addition to testing the importance of business tools and their use in businesses, this study also controlled for a number of demographic variables. When correlated with the business health variable only a few were found to be related to healthier businesses (Table 5.10). *Hours Spent Planning* ($p < 0.01$) and *Education Level* ($p < 0.05$) were positively related to business health, while owner/manager *Years With The Firm* ($p < 0.05$) was found to be negatively associated with business health. Other variables such as *Hours Spent on Business* and *Number of Managers* and *Number of Employees* were not found to be strongly related to business success.

Table 5.10 Control Variable Correlates to Business Health

	Pearson Correlations with Business Health
Hours Spent on Business	0.0238
Hours Spent Planning	0.2051**
Years in Operation	-0.0707
Years with Firm	-0.1357*
Education Level	0.1405*
Number of Managers	0.0511
Number of Full-Time Emp.	0.0860
Number of Part-Time Emp.	0.0240
Gross Sales	0.0508
Number of Locations	0.0753

*p < 0.05 **p < 0.01

5.7 MANAGERIAL INFLUENCE FINDINGS

Although no specific relationships were hypothesised, Managerial Influence (imp & fit) items were investigated in the same fashion as Strategic Management, Marketing Orientation, Financial Management, and Entrepreneurial Orientation.

5.7.1 THE IMPORTANCE OF MANAGERIAL INFLUENCE ITEMS AND BUSINESS HEALTH

Regression analysis indicates that owners/managers who score high on the overall Managerial Influence (imp) index tended to also score high on business health. Managerial Influence (imp) index significantly ($p < 0.01$) accounts for 3.12% of the variance in business health (Table 5.11). The individual items were all found to

positively associated with business health, however, *Rational* ($p < 0.01$) and *Adaptable* ($p < 0.01$) were the only items found to be significant. They respectively account for 4.7% and 4.1% of the variance in business health.

Table 5.11 Simple Linear Regression for Managerial Influence (imp) and Business Health

	Simple Linear Regression		
	Beta	R sq	F Value
MANAGERIAL INFLUENCE (imp)	0.1765	0.03115	7.36256**
Opportunity Seeker	0.1437	0.02064	4.97323*
Rational	0.2167	0.04696	11.62751**
Total Control	-0.0689	0.00474	1.12514
Intuitive	0.1084	0.01174	2.78002
Need to Achieve Goals	0.1331	0.01771	4.25583*
Systematic	0.0709	0.00503	1.18180
Independent Minded	0.1838	0.03377	8.24946**
Adaptable	0.2027	0.04109	10.11220**
Risk Taker	0.1957	0.03829	9.35681**
Experience	0.0398	0.00159	0.37354
Innovator	0.1436	0.02061	4.96563*
Growth Oriented	0.1096	0.01202	2.85927

* $p < 0.05$ ** $p < 0.01$

5.7.2 OWNER/MANAGER FIT TO MANAGERIAL INFLUENCE AND BUSINESS HEALTH

Owner/managers who score high on Managerial Influence (fit) index tended to also score high on business health. Managerial Influence (fit) index significantly ($p < 0.01$) accounts for 3.84% of the variance in business health (Table 5.12). *Rational* ($p < 0.05$), *Intuitive* ($p < 0.05$), *Adaptable* ($p < 0.05$), and *Growth Oriented* ($p < 0.01$) were

the individual items found to be significant. They respectively account for 2.29%, 1.97%, 2.05%, and 5.75% of the variance in business health.

Table 5.12 Simple Linear Regression for Managerial Influence (fit) and Business Health

	Simple Linear Regression		
	Beta	R sq	F Value
MANAGERIAL INFLUENCE (Fit)	0.1961	0.03844	9.11592**
Opportunity Seeker	0.2295	0.05267	12.89764**
Rational	0.1512	0.02287	5.43014*
Total Control	0.0010	0.00000	0.00025
Intuitive	0.1402	0.01966	4.61367*
Need to Achieve Goals	0.1810	0.03276	7.85793**
Systematic	0.0569	0.00324	0.75342
Independent Minded	0.2278	0.05191	12.70236**
Adaptable	0.1430	0.02046	4.84850*
Risk Taker	0.0777	0.00604	1.40914
Experience	0.0446	0.00199	0.46084
Innovator	0.2155	0.04846	11.25551**
Growth Oriented	0.2398	0.05750	14.15323**

*p < 0.05 ** p < 0.01

5.8 BUILDING A PREDICTIVE MODEL OF BUSINESS HEALTH

The discriminant model of business health includes items from all importance indices (Table 5.13). Strategic Management Items which entered were *Delegation of Authority* and *Regular Management Meetings*. The Marketing Orientation items that entered the discriminant equation during were, *Evaluating Market Share*, *Recognizing Shifts in Consumer Taste*, *Pricing Strategy*, and *Market Forecasting*. From the Financial Management items considered in the analysis, only *Preparing*

Financial Statements and Determining the Break-even Point, entered the equation. The Managerial Influence^{††} and Entrepreneurial Orientation[†] (imp) items, *Risk Taker[†]*, *Adaptable^{††}*, *Intuitive^{††}*, and *Growth Oriented^{††}* also entered the model. In addition, the control variables *Hours Spent Planning*, *Years With The Firm*, and *Education Level* entered the model as well.

Table 5.13 The Discriminant Model of Business Health

	Discriminant		Standardized		Cumulative Wilks' Lambda	Canonical Correlation (eq6)	Chi sqr (eq6)
	Loadings	Rank	Discrim. Coeff.	Rank			
Hours Spent Planning(6)	0.4232	1	0.48155	1	0.95564		
Risk Taker(4)	0.36728	4	0.31048	8	0.82275		
Education(6)	0.33512	5	0.19749	15	0.80416		
Recognizing Shifts in Consumer Taste(2)	0.28553	8	0.40619	4	0.88352		
Delegation of Authority(1)	0.39796	2	0.47426	2	0.87103		
Regular Management Meetings(1)	0.08878	18	-0.45031	3	0.86077		
Preparing Financial Statements(3)	0.20313	13	0.29703	9	0.85044		
Determining the Break-even Point(3)	-0.14767	15	-0.33422	6	0.83816		
Years with the Firm(6)	-0.23243	11	-0.26637	11	0.82776		
Market Forecasting(2)	0.26485	9	0.24238	13	0.82333		
Setting Pricing Strategy(2)	-0.06617	19	-0.35056	5	0.81468		
Evaluating Market Share(2)	0.28645	6	0.25886	12	0.81013		
Intuitive(5)	0.13623	16	-0.29626	11	0.80439		
adaptable(5)	0.38404	3	0.32910	7	0.79837		
Growth Oriented(5)	0.27844	7	-0.21402	14	0.79417	0.4536841	45.976**
Rational(5)	0.28235	10	Did not enter stepwise solution				
Use of Outside Advisors(1)	0.22892	12	Did not enter stepwise solution				
Setting Measurable Objectives(1)	0.17366	14	Did not enter stepwise solution				
Preparing a Budget(3)	0.09426	17	Did not enter stepwise solution				

* p < 0.05 ** p < 0.01

The items correspond to the following indices : (1) Strategic Management; (2) Marketing Orientation; (3) Financial Management; (4) Entrepreneurial Orientation; (5) Managerial Influence; & (6) Control Variables.

These fifteen items construct a model of business health which has a canonical correlation of 45.37% suggesting a strong relationship between the actual health and the predicted result (Table 5.14). In addition, it is significant at $p < 0.01$. Also, it

correctly classifies individual cases 71.29% of the time (Table 5.14). However, it should be noted that the model more accurately predicts healthy businesses by correctly classifying them 88.1% of the time. Sick businesses on the other hand are correctly classified only 40.5% of the time.

**Table 5.14 Discriminant Model of Business Health:
Predicted Group Membership**

Actual Group	# Cases	Predicted Group Membership	
		Sick	Healthy
Sick	74	30 40.5%	44 59.5%
Healthy	135	16 11.9%	119 88.1%

Percentage of Cases Correctly Classified : 71.29%

5.9 SUMMARY OF RESULTS

The regression analyses indicates that both Strategic Management and Marketing Orientation importance indices positively affected business health (Hypotheses 1a & 1b were accepted). The Financial Management importance index, was found to insignificantly influence business health (Hypothesis 1c was rejected).

Entrepreneurial Orientation (imp) index positively affected business health (Hypothesis 2 was accepted) The

same result was found for Hypothesis 3, where the Entrepreneurial Fit index was also found to positively affect business health (Hypothesis 3 was accepted).

The Entrepreneurial Orientation importance index was found to be positively correlated with each of the business tool importance indexes (Strategic Management, Marketing Orientation, & Financial Management) (Hypothesis 4a, 4b, & 4c were all rejected).

Both the Strategic Management and Marketing Orientation Use indices were significantly different between sick and healthy businesses (Hypothesis 5a and 5b were accepted). Sick businesses use these tools less often than healthy businesses. Similar to the insignificant regression analysis for the Financial Management (imp) index, a significant difference between sick and healthy businesses use of financial tools was not found. Sick businesses were found to use Financial Management tools as often as healthy businesses.

The discriminant model of business health included items from all disciplines and predicts business health correctly 71.29% of the time.

6.0 DISCUSSION

6.1 THE IMPORTANCE OF BUSINESS TOOLS AND BUSINESS HEALTH

6.1.1 STRATEGIC MANAGEMENT AND BUSINESS HEALTH

Owners/managers, who perceive Strategic Management skills and tools to be important to the success of a business, will operate their own businesses more successfully. This confirms the theories of Ansoff (1965), Schendel & Hofer (1979) and Porter (1980, 1985), who write that managers must be concerned with the strategic direction of their firms to ensure long term success and future growth. However, this conflicts with Robinson et al. (1986) who concluded that strategic planning in small firms does not improve their performance. It may be that the level of strategic sophistication in small business need not be as high as in big businesses, but it is obvious that small businesses will perform better if their owners/managers considered strategic issues than if they did not.

Setting Measurable Objectives and Formulating Strategy are two of the specific items in the Strategic

Management index that were found to specifically help small businesses succeed. This indicates that the broad definition of a business and its strategies (Ansoff, 1965; Schendel & Hofer, 1979; Porter, 1980, 1985) are as applicable to small business as they are to big business. Yet, Market Planning, Human Resource Planning, Emergency Planning and Financial Planning were not found to be significant to small business success. This directly contradicts Ackelsberg & Arlow (1985), and Miller & Toulouse (1986) who found that small businesses that plan outperform non-planners. This could result because small business Use Outside Advisors in their strategic process. Robinson (1982) suggests that small business owners/managers seek outside advisors to augment inadequate planning skills.

While Employee Training does not turn up as significant to success, Delegation of Authority and Use of Employee Feedback certainly do. This is not surprising; while most small businesses employ few staff members, training is not perceived as a strategic issue, and therefore not relevant to a small businesses long term success. Yet, as a firm grows it needs to be able to rely on its employees to carry out day-to-day tasks so the owner/manager can concentrate on more complex strategic issues (Miller & Toulouse, 1986). Employees

then have definite responsibility to perform tasks that once may have been executed by the owner/manager him/herself. With the owner/manager removed from the day-to-day activity, employee feedback keeps them informed.

These results should be interpreted carefully. The actual variance in business health explained by owners/managers considering Strategic Management items important to success is quite small. Perceiving Strategic Management to be important does not mean that a responding business even employed Strategic Management practices in their own business. However, the assumption is, if they consider it important, they will in some way use it within their own business.

6.1.2 MARKETING ORIENTATION AND BUSINESS HEALTH

Owners/managers who perceive Marketing Orientation items to be important to business success, will have healthier businesses. Finding that Marketing Orientation is positively linked to business health confirms the belief of Kohli & Jaworski (1990) as well as corroborating the results of Narver & Slater (1990) and Ruekert (1993). However, the variance explained by Marketing Orientation is significant but small, and should be interpreted with caution. As in Strategic

Management, this may mean that the marketing sophistication level may not be as high as in a big business. However, small business owners/managers gather market information and act upon that information will be more successful.

The specific items also confirm previous results. Successful small businesses gather information about their target markets. This means marketing efforts of a successful small business are focused on reaching intended consumer groups. This minimizes wasted resources trying to profitably meet the needs of all consumers. Small businesses then act on that information by designing the appropriate product/service mix for the intended markets. It is obvious that a very broad target market is not conducive to a tight product/service mix.

Successful small businesses also collect market information to forecast the demand for their target markets. This allows them to be sensitive to shifts in demand due to both seasonality and customer taste. In addition, successful small businesses evaluate their market share. Forecasting gives a firm time to act on this market intelligence and adjust their marketing strategy as necessary to ensure changing customer needs are constantly being met.

Other Marketing Orientation items, such as Determining Customer Needs, Analyzing Ability to Meet Customer Needs, and actually Meeting Customer Needs were not found to be significant to business health. It seems curious that such obvious marketing orientation practices do not have an effect on success. Even Monitoring Competitors, suggested by Kohli & Jaworski (1990), as key to manoeuvring in the market place was not significant. The reason for this may be found in the entrepreneurial behaviour of small business owners/managers.

Entrepreneurs often operate on instinct. Mintzberg & Waters (1982, p. 495) quote a small business owner and entrepreneur by the name of Sam Steinberg,

I knew merchandise, I knew cost, I knew selling, I knew customers, I knew everything...and I passed on all my knowledge; I kept teaching my people. That's the advantage we had. They [the competition] couldn't touch us.

Small business owners do gather market information and disseminate it throughout their firms, but probably on an informal basis. They do know their customers, their own capabilities, and they meet the needs of their customers routinely. This is because they are so close to the sale of the product or delivery of the service that gathering of this market information is primarily informal. Since many business owner/managers gather information in this fashion, there would not be enough

corresponding variation in the items to explain variations in business health.

6.1.3 FINANCIAL MANAGEMENT AND BUSINESS HEALTH

Unlike Strategic Management and Marketing Orientation, the simple linear regression results suggest that there is a positive, but insignificant, relationship between owner/manager-perceived importance of Financial Management. Giving more importance to financial issues will not necessarily improve the financial performance (i.e. growth) of a small business. This finding clearly goes against the writings of many researchers in this area such as Khan & Rocha (1982) and Boyle & Desai (1990, 1991) who emphasize the benefits of strong financial management.

When examining the individual items which make up the Financial Management, only one positively and significantly influences business health. Accounts Receivable Maintenance is the single Financial Management practice that will help generate greater small business success. This agrees with Horvitch (1982) who writes that strong cash management can prevent a premature bankruptcy. Falling demand, unpaid, and delinquent accounts mean that cash inflow will suffer. In addition to poor accounts payable maintenance, ineffective

debt/accounts payable management could leave a business cash poor and without the ability to pay bills or raise additional capital to survive difficult times (i.e. low demand, recession, & stiff competition). Businesses cannot spend money they do not have.

Tasks such as Preparing Financial Statements, Preparing a Budget, Analyzing Variances between predicted and actual results, as well as calculating Financial Ratios were not found to be significant in explaining business health. This result directly contradicts Boyle & Desai, (1990, 1991) who vehemently write in favour of greater emphasis on financial management. The statistical answer is there simply was not enough variance in the independent items to corresponded with changes in business health.

From this finding an interesting conclusion can be drawn. It appears as though, the responding small businesses all perceived the tasks as very important to business success regardless of how successful they actually were. It indicates that even the businesses in the worst of health still recognize the importance of financial management in operating a business. These results also contrast with the Strategic Management and Marketing Orientation results. While all small companies

absolutely must perform financial analysis, the more successful businesses are those who have developed a strategy and market themselves to their intended target markets.

While the results of this study do not dispute the fact that financial management is important to small business survival, it is obvious that perceiving financial management as important to business success does not make the difference between a business becoming sick or healthy. It appears that all small business owners/managers must have at least basic financial management skills to keep their businesses at a minimum operating level. While emphasising few financial management skills will certainly not help a firm achieve success, being a financial wizard may not be the answer either.

6.1.4 TOOLS OF BUSINESS: IMPLICATIONS FOR SMALL BUSINESS OWNERS/MANAGERS

It appears as though the two major categories of fundamental business skills and tools that help a business grow healthier are Strategic Management and Marketing Orientation. All businesses must perform at least the minimum financial analysis to get bank loans

and maintain the cash flow from period to period, but the strategy and marketing are not policed by bankers.

The results from Strategic Management indicate that small business owners/managers must elevate themselves above the day-to-day activity of their business if they wish to grow. This means concerning themselves with the strategic issues such as objectives and strategy, while at the same time empowering their employees and delegating the necessary day-to-day authority to them. Owners/managers cannot give adequate attention to strategy if they expend most of their effort performing activities that could be delegated.

The results from Marketing Orientation indicate that small business owners/managers must gather market information and use the information to better meet the needs of their customers. Limited resources in small firms may constrain the formalized information gathering. However it is difficult to distinguish between how formal or informal owners/managers gather their market information. Mintzberg & Waters (1982) suggest that it may be experience oriented and/or intuitively based. The managerial influence item *Intuitive* was found to be relatively strongly related to many marketing items (Appendix C). While establishing target markets and

forecasting future demand, owners/managers also must be keenly aware of changes within the market place. Maintaining growth is closely related to product/service design and shifting marketing strategy.

Even though the Financial Management importance index was not found to be significant does not mean it should be neglected. Good financial management appears to be a requirement of any business to survive. Any owner/manager that does not regard financial management as important may cause the failure of his/her business. It apparently does not help a company grow, but it certainly will not hurt the firm in the long run, to strive for financial competence and stability.

6.2 THE IMPORTANCE OF ENTREPRENEURIAL TRAITS AND BUSINESS HEALTH

Small business owners/managers who consider Entrepreneurial Traits important to business success do run healthier businesses. This finding is important in two respects; first it provides a definition of an entrepreneurial behaviour from the perspective of practising business owners/managers. Since the index was constructed from items from the Psychological, Classical, and Managerial theoretical schools of thought (Cunningham & Lischeron, 1991), it strongly indicates that the best

definition of entrepreneurial orientation is multi-theory based. Second, it suggests that entrepreneurial traits, which are commonly used to define entrepreneurial behaviour (Carland et al. 1984), actually have a significant and positive effect on the health of small businesses. This finding refutes Sandberg's (1986) conclusion that entrepreneurial characteristics do not significantly influence performance. However, it does confirm the opinion of Herron & Robinson (1993) and others who insist that entrepreneurial behaviour helps small businesses succeed.

On an individual basis, five of the six entrepreneurial traits were found to significantly influence business health. In short, entrepreneurial behaviour, defined by small business owners/managers, consists of actively seeking opportunity, defining goals and possessing the need to achieve them, being independent minded, taking moderate risks, and being innovative in creating competitive advantages (Carland et al., 1984). It is clear that successful entrepreneurial behaviour does not mean controlling everything. Control was found to not significantly affect business health. This coincides with the finding by Miller & Toulouse who discovered a significant and negative relationship between control and performance. Obviously, the finding

from the Strategic Management Section where delegation of authority is related to success also validates this conclusion about control.

6.2.1 IMPORTANCE OF ENTREPRENEURIAL TRAITS: IMPLICATIONS FOR SMALL BUSINESS OWNER/MANAGERS

It seems entirely appropriate that in a small business, entrepreneurial characteristics be important to business performance. Small organizations allow owner/manager contributions make the most impact on business outcomes. To further this conclusion, these characteristics all have positive connotations. For example, opportunities imply future success, goals indicate achievement, independence suggests freedom, risk is associated with gain, and innovation means positive change. In the same context, small business owners/managers must be striving to possess and display these positive characteristics to augment the success of their businesses. Obviously, not every business person can be fully entrepreneurial. However, an owner/manager who is not trying to take advantage of opportunities or who does not wish to achieve any specific goals stands to gain less in the long run.

6.3 OWNER/MANAGER FIT TO ENTREPRENEURIAL TRAITS AND BUSINESS HEALTH

Small business owners/managers who indicate that they fit the definition of an Entrepreneur, do operate healthier businesses. This finding validates the conclusion that business owners/managers, who are entrepreneurial, become more successful. It is different from the rating of entrepreneurial importance to business health because it is reflective of what owners/managers do within their own businesses. In essence, they "practice what they preach". Yet, to put into practice entrepreneurial traits appears to be more significant in improving business health than simply considering them important to success. Entrepreneurial fit explains almost double the variation in business health than that of Entrepreneurial importance. Clearly it is better to actually be entrepreneurial than to simply perceive it to be important.

Small business owners/managers are opportunity seekers, they need to achieve their goals, are independent minded, and innovators. As before, the locus of control remains insignificantly related to business success. This is to be expected. However, perhaps the most interesting finding is the fact that small business owners/managers are actually not risk takers even though

they indicated that it was important to success on the importance index. Actual propensity for risk taking by entrepreneurs is low. This result agrees with Brockhaus (1980) who concluded that risk taking is not the best indicator of an entrepreneur. This may very well be because their own livelihood and that of their families is at stake. Entrepreneurs want to take risks but are limited by concerns for the security of their businesses and/or stake holders who have personally taken a share of the risk.

6.3.1 ENTREPRENEURIAL FIT : IMPLICATIONS FOR SMALL BUSINESS OWNERS/MANAGERS

Small business owners/managers must strive to engage in entrepreneurial activities to positively influence their business health. This study has shown that the owners/managers of healthy small businesses perceive opportunity seeking, risk taking, need for achievement, independent mindedness, and innovation as important to business success. In addition, the same owners/managers have described themselves as being opportunity seekers, possessing the need for achievement, being independent minded, and innovative. Whether or not entrepreneurship can be learned or not is still a central question (Ronstadt, 1985). Yet, the desire to be an owner/manager of a small business is a very good sign that an

owner/manager has entrepreneurial aspirations and capabilities. Perhaps entrepreneurship cannot be learned in a didactic fashion; however, owners/managers as students may be able to learn how to develop and exhibit entrepreneurial traits (Ronstadt, 1985). This includes developing managerial competence so that the risks which are necessary, but so troublesome to take, may be negotiated with greater confidence and ease.

6.4 THE ASSOCIATION BETWEEN ENTREPRENEURSHIP AND THE TOOLS OF BUSINESS

Owners/managers who consider entrepreneurial characteristics important to business success, also consider the fundamental tools of business important. This goes against the expected results, and much of the literature which speculates that entrepreneurs are potentially less skilled with or less interested in management tools (Mintzberg, 1973; Khan & Rocha, 1982; Peterson et al. 1983; Ibrahim & Goodwin, 1986, Tylor & Banks, 1992).

6.4.1 ENTREPRENEURSHIP AND STRATEGIC MANAGEMENT

In the past, little attention has been paid to the relationship between Entrepreneurial Orientation (imp) and Strategic Management (imp) tasks. The strength of the relationship is weak, but significant. It indicates

that if an owner/manager considers entrepreneurship important to business success, there will a moderate chance that he/she will also consider strategic management important. This type of relationship suggests that owners/managers do not have to choose one emphasis over the other (i.e. strategic management over entrepreneurial orientation). The two paradigms appear to complement one another. Small businesses obviously have room for both entrepreneurial behaviour and strategic tasks.

When breaking the indexes into their component items, the complementary relationship between the Entrepreneurial Orientation and Strategic Management becomes more clear. The entrepreneurial items correlate differently for each strategic management task. For example, the Need to Achieve Goals correlates highly with Setting Measurable Objectives but relatively low with Financial Planning. A few relationships are negative, but none of the negative relationships are significant. Where entrepreneurial characteristics cannot add to greater business success, then strategic management tasks take over and finish the job.

6.4.2 ENTREPRENEURSHIP AND MARKETING ORIENTATION

Very similarly to the relationship between Entrepreneurship and Strategic Management, Entrepreneurial Orientation (imp) and Marketing Orientation (imp) are positively, but modestly, related. This result supports Miles & Arnold (1991) who also found marketing orientation and entrepreneurship to be positively and significantly correlated. This suggests that entrepreneurial orientation and marketing orientation are not competing concepts, rather, they complement each other in achieving business success.

In addition, the individual items in Entrepreneurial Orientation and Marketing Orientation widely vary in their correlations (Appendix C). Risk Taker correlates very low and insignificantly with Meeting Customer Needs, but much higher with Identifying Target Markets and Determining Customer Needs. This suggests that the Entrepreneurial Orientation is responsible for some aspects of business health while Marketing Orientation accounts for other variances in business health. This supports the conclusion that Entrepreneurial Orientation and Marketing Orientation are complementary in their contributions to business health.

6.4.3 ENTREPRENEURSHIP AND FINANCIAL MANAGEMENT

Entrepreneurial Orientation (imp) and Financial Management (imp) are positively correlated. The correlation coefficient is almost identical to the correlations of Entrepreneurial Orientation with Strategic Management and Marketing Orientation. Therefore, the conclusion is the same. Financial Management and Entrepreneurial Orientation are complementary in their contributions to business success.

However, when examining the individual item correlations, there are differences from the previous two sets of results. While the overall correlation appears no different, the individual item correlations are relatively lower when compared to other results. The finance items have been proven earlier to contain less variance because all business owner/managers perceive them to be important to business health. The less variance translates into lower correlations. This does not change the interpretation of the results. Rather, it enforces the conclusion that Entrepreneurial Orientation and business tools, such as Financial Management, are responsible for achieving different ends within the business.

6.4.4 ENTREPRENEURSHIP vs. BUSINESS TOOLS: IMPLICATIONS FOR SMALL BUSINESS OWNERS/MANAGERS

The balance between fundamental business tools and entrepreneurial orientation is crucial for small businesses. Some researchers might be tempted to lean one way or the other in addressing this issue. However, this research shows that Entrepreneurial Orientation and the tools of business benefit a business uniquely. Small businesses are rarely in the competitive position to be forfeiting any factor that may improve their health. Owner/managers should be working towards becoming strong in both paradigms. Being weak in entrepreneurial orientation does not mean their organization need not focus on opportunity seeking or developing other entrepreneurial characteristics. Nor must an entrepreneurial oriented firm be forced to exist in ambiguity by not taking advantage of the business tools available. The healthiest firms create a balance between the two disciplines, thereby maximizing the benefits of each.

6.5 THE DIFFERENCE IN THE USE OF BUSINESS TOOLS BETWEEN HEALTHY AND SICK BUSINESSES

6.5.1 STRATEGIC MANAGEMENT FOR HEALTHY AND SICK

Owners/managers of healthy businesses do perform Strategic Management Tasks more often than those who are

operating sick businesses. This result can be approached as strictly a *frequency* issue. Therefore, it would simply be considered better to perform strategic tasks more often to improve the health of a small firm. While this may be an easy conclusion, it is too simplistic. A better explanation is that successful businesses are more likely to spend more time performing Strategic Management tasks. This allows them to be more consistent in planning, executing, and evaluating their actions.

There are a number of specific Strategic Management tasks which are performed more often in healthy than sick businesses. Owners/managers of healthy businesses formulate strategy more often than those in sick businesses. This may agree best with Mintzberg (1985), who suggests that successful companies are willing to adopt new strategies as they emerge through day-to-day actions of the firm and its competitors.

The use of outside advisors is also more prevalent in healthy than in sick businesses. This was also the finding in the analysis of the importance of outside advisors to business success. Healthier businesses do compensate for their weaknesses with the advice of experts, as suggested is the case by Robinson (1982), and they use consultants more often.

In addition, healthy businesses train their employees more often than owners/managers of sick businesses. This result should be interpreted with caution because it is more likely that a healthy growing firm hires more new staff than a sick business. This is in line with a study of small business success in England where Foley (1985) found that the more successful a company is, the more people it will employ. Healthy companies will be hiring more people and placing more emphasis on human resource tasks such as training their new employees. However, it is also likely that more commitment to training and staff development leads to greater prosperity; simply because it results in more capable and competent employees.

6.5.2 MARKETING ORIENTATION FOR HEALTHY AND SICK

Owners/managers of healthy businesses do perform Marketing Orientation tasks more often than those who are operating sick businesses. This result should be interpreted with the same caution as in the use of Strategic Management Tools. More frequent use of these Marketing Orientation Tools indicates a greater amount of time spent on executing the tasks.

Considering that more consistency in Marketing Orientation significantly differentiates healthy from

sick businesses, some specific items are key to this conclusion. Healthy small businesses forecast their future demand more often than sick businesses. As a result they are more sensitive to the needs of their customers, recognizing the shifts in consumer taste more often.

Healthy businesses spend more time securing distribution channels for their products/services. This means they are spending more time penetrating their existing markets. At the same time they are prospecting for new avenues through which to reach new customers and satisfy their un-met needs (Guiltinan & Paul, 1988).

Sick firms may underestimate the consequence of weak distribution channels, not realizing their important role in enhancing the growth of their firms.

Also, healthy small businesses are more aware of their market position because they evaluate their market shares more regularly than do sick businesses. It is evident that successful small business owners/managers are very responsive to their existing markets as suggested by researchers such as Kohli & Jaworski (1990), Narver & Slater (1990), and Ruekert (1992).

6.5.3 FINANCIAL MANAGEMENT FOR HEALTHY AND SICK

Unlike the use of Strategic Management and Marketing Orientation Tools, the use of Financial Management Tools does not differ significantly between sick and healthy businesses. The overall index turns up insignificant, as does every item on the financial management list. This affirms earlier results of this study where the overall ratings of Financial Management importance to business success were not significant in explaining the variance in business health. However, on the importance scale the individual item of cash flow maintenance was found to be significant. On the use of financial tools scale, not even cash flow maintenance differs significantly between sick and healthy. All small business owners take financial management very seriously and perform the tasks with great consistency. Nonetheless, more emphasis on financial management, with the possible exception of cash flow management, may not aid survival.

It is now clear that small businesses must possess and use a minimum threshold of basic financial tools simply to remain in business. Therefore, it can be concluded that financial management does not directly influence the growth of a small businesses. Instead, it acts as the catalyst for action, providing information

crucial to the strategic management and marketing functions.

As suggested earlier, researchers such as Boyle & Desai (1990, 1991), and Khan & Rocha (1982) may disagree with this conclusion. They claim that poor financial management practices of North American small firms are the one weakness which causes so many failures. No one disputes the fact that strong financial management tools are a must in small business operations. However, one can argue about the necessity of financial skills when the owners/managers are inept at developing and executing strategy or are not able meet the needs of their customers.

6.5.4 SICK VS HEALTHY: IMPLICATIONS FOR SMALL BUSINESS OWNERS/MANAGERS

Banks and other sources of capital in North America will continue to require detailed business plans and proof of financial competence. This means the small business owners/managers are very often aware of the appropriate use of financial management tools. However, this has not stopped the barrage of small business failures every year. The results of this study suggest that stronger financial management will not improve business health. The consistency with which strategy is

executed and meeting the needs of markets are more meaningful than financial management. Thus, it can be concluded that small business owners/managers should focus their actions on manoeuvring within their *competitive environment* (Porter, 1980, 1985).

6.6 CONTROL VARIABLE FINDINGS

Owners/managers who spend more time on their business duties do not necessarily have healthier businesses. This is obvious because simply spending time at work does not mean that any strategic activities are accomplished. However, more time spent planning is significantly related to success. This conclusion does side with Ackelsberg & Arlow (1985) who also conclude that small businesses must plan to be more successful.

Coupled with earlier findings on the Strategic Management importance index which revealed that much of the strategic planning is left to outside advisors, the results suggest that most of the planning done by owners/managers is primarily short-term. Robinson & Pearce (1983) and Robinson et al. (1986) would agree, stating that formal strategic planning is ineffective for small businesses.

As expected, more educated owners/managers, operate more successful businesses. This means that educated small business owners/managers are astute enough to effectively and efficiently manage their firms (Ronstadt, 1985). Even the educational institutions of North America are realizing this by creating programs where students are trained in new venture management and entrepreneurship (Ronstadt, 1985).

The number of managers, part time, and full time employees are not significantly related to success. This directly contradicts Foley (1985) who found that the number of management and professional staff accounted for 84% of the variance in small business success. Perhaps, it may have been better to investigate the change in management and staff as an indicator of business growth. Foley (1985) was able to explain 95% of the change in sales with the change in employment over an organizations three previous fiscal years.

Finally, owner/manager Years With the Firm was indicated to be negatively related to business health. Foley (1985) also discovered a negative relationship between owner/manager tenure and business success. In other words, the longer an owner/manager stays with his/her firm the less growth and prosperity the firm

experiences. This phenomenon may be related to entrepreneurial orientation and managerial influence changing over time. The results suggest that seasoned entrepreneurs exhibit fewer entrepreneurial characteristics. They may not be willing to assume risk, implement a competitive degree of innovation, or even be as adaptable to changes in the market place.

6.6.1 CONTROL VARIABLES: IMPLICATIONS FOR SMALL BUSINESS OWNER/MANAGERS

How do owners/managers of small businesses quickly improve their results? Clearly, they must spend time planning their actions. This does not specifically mean that their planning should be formally structured and always concentrate on strategic issues. It simply means that they should spend more time contemplating the future of their businesses and how they intend to achieve their organizational goals.

Second, they must educate themselves. Whether this education takes place before or after they enter the small business community is not important. However, Ronstadt (1985, p. 7) insists that educated entrepreneurs

...know better when, how and where to start their new ventures, how to better pursue their careers as entrepreneurs, and how to maximize their goals as entrepreneurs...not just for themselves but also for the betterment of society.

Third, while it may be easy to stop driving for success as the years move on, an owner/manager must not get too comfortable. Owner/manager complacency leaves the small firm open to attack by new competition because less aggressive behaviour in an existing company lowers the barriers to entry into the respective industry. There are always new organizational goals and objectives to challenge and motivate key members of the organization. Also, there are always new opportunities to investigate and new markets to pursue. A company that stops seeking competitive advantages, stops being competitive and soon finds itself in decline.

6.7 MANAGERIAL INFLUENCE FINDINGS

6.7.1 THE IMPORTANCE OF MANAGERIAL INFLUENCE AND BUSINESS HEALTH

The two Managerial Influence (imp) items that were found to be significant (Rational & Adaptable) appear to validate the theories of Mintzberg (1978, 1985). A small business person, to be successful, must try to make rational and consistent decisions in order to proficiently meet his/her goals. In addition, he/she must try to be adaptable and creatively deal with any unplanned events as they occur. Mintzberg (1985) is correct by pointing out that few strategic intentions are ever fully realized. Small firms cannot change their

environment, but must instead accept and adapt to situations as they transpire.

6.7.2 OWNER/MANAGER FIT TO MANAGERIAL INFLUENCE AND BUSINESS HEALTH

Owners/managers fit more managerial items than they find important. Successful owners/managers perceive Rational and Adaptable to be of significant importance to achieving business health. However, they describe themselves as not only being Rational and Adaptable, but Intuitive and Growth Oriented as well. So it appears as though competent managers have a distinctly rational, but intuitive, problem-solving style. The reason being, as pointed out by Hoy & Hellriegel (1982, p. 321), is that small business owners/managers often perform multiple roles within the company and thus "...identify their major problems as internal to the organization" and therefore intuitively find solutions.

The inclusion of Growth Orientation in the list of managerial characteristics for successful business owner/managers is not surprising. Growth is clearly one of the major goals of small businesses. A successful small business is growing, and a successful owner/manager is growth oriented.

6.8 THE PREDICTIVE MODEL OF SMALL BUSINESS HEALTH

The cumulative product of this study is the *predictive model of business health* which was constructed from the importance scale items in each of the indices (Exhibit 6.1). While models of business performance are commonly found in the literature (i.e. Foley, 1985; Mintzberg, 1985; Sandberg, 1986; Keats & Bracker; 1988), this model is unique. The model includes items from all areas including Strategic Management, Marketing Orientation, Financial Management, and Entrepreneurial Orientation/Managerial Influence. In the past the majority of models have included items from only one or possibly two disciplines.

Because this model is predictive, it is suitable for use by small business owners/managers and investors. It is able to predict with 71.29% accuracy whether a business is sick or healthy. This is better than the 68% accuracy achieved by Ruekert (1992) in building a model of the market orientation effect on business performance. However, its main weakness is that it is skewed in favour of healthy businesses. It predicts healthy businesses with 88.1% accuracy, but is only able to predict sick businesses with 40.5% accuracy. A better model would predict with a minimum of 50% accuracy for sick and healthy groups.

The individual items which make up the model, are from the importance indices. They are items which easily differentiate sick from healthy businesses. They are slightly different from the items which significantly explain the variance in business health (i.e. regression), but the majority of them are found in both analyses.

6.8.1 THE PREDICTIVE MODEL: IMPLICATIONS FOR SMALL BUSINESS OWNERS/MANAGERS

The utility of such a model of business health is its use in diagnosing the actual health of an existing small business. A small business owner/manager or investor wishing to know if their business is healthy or sick could perform the diagnoses themselves by filling out a questionnaire which includes all the items in the model. The scores could then be tallied on the spot and the owner/manager could find out quickly where they were having difficulties.

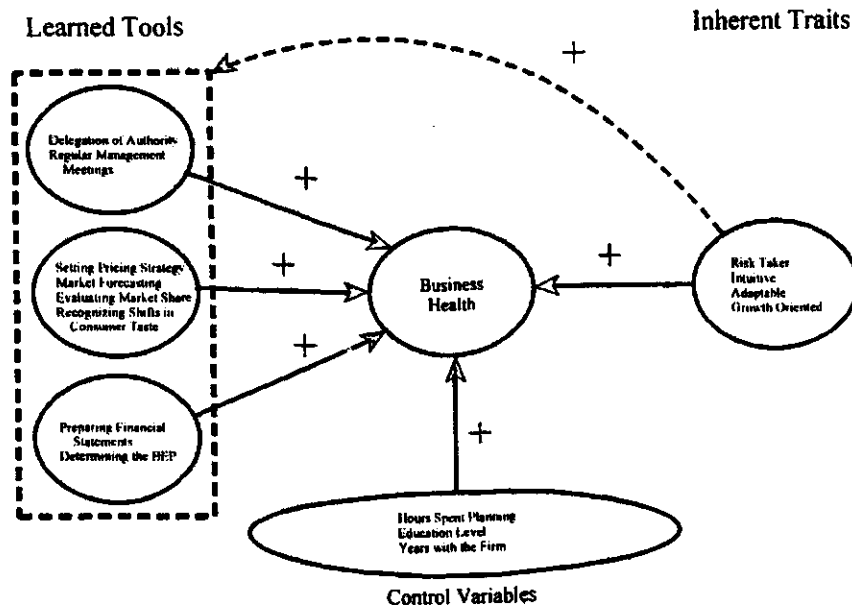
6.9 NEW KNOWLEDGE OF SMALL BUSINESSES

This research into the factors contributing to small business success, aside from answering the research questions, has also dealt with a much broader issue. This research tested whether the tools of business, so often derived from big business research, apply to small

business and their owners/managers. Many researchers have investigated how small business deal with specific issues such as strategy, marketing, finance and entrepreneurship. Yet, there is a distinct lack of the *big picture*, illustrating how small businesses are unique in form and substance.

Exhibit 6.1 The Model of Small Business Health

Factors Contributing to Small Business Health



The belief is that small business should operate and perform like a little big businesses. While it may be true that they wish to be big businesses someday, the

fact of the matter is that they are not big, they are small.

Small business owners/managers have to worry about strategy, planning, and implementation. Very often they perform all three of these strategic tasks. As this study reveals, use of outside advisors is important to success because the owners/managers are spending time implementing the plans. Thus a shorter term perspective is taken. While delegation of authority is indeed important to business success, owners/managers often find themselves on the shop floor working to meet an order or minding their retail store instead of strategy-making.

On top of this owners/managers must deal with the marketing strategy and other related marketing duties such as buying raw materials and maintaining accounts. They often perform the sales function personally. Small business owners/managers must also manage finances. They spend time seeing bankers to arrange lines of credit or entertaining other investors. A small business owner/manager must be all things to his/her business, including bill collector, to minimize bad debts and maintain cash flow. There is no time or money to waste and mistakes are costly.

In addition, small business owners/managers work under conditions of great uncertainty. While it is believed that entrepreneurs thrive under these conditions, it is likely not as pleasing as researchers speculate. They simply do not have the resources, dollars and people, to investigate every opportunity, much less draw up a nice clean written business plan every year. Highly volatile markets and strong competition mean plans are changed and goals are not reached. In small business this is especially true when one or two incidents can mean a whole new direction for a firm.

The factor which really makes small businesses different from a big businesses is the personal influence that the owners/managers have on every aspect and action of the firm. The goals of the owners/managers are so often synonymous with those of the businesses. The goals and objectives which the small firm has to achieve are also those of the owners/managers. Their lives and that of their families are at stake, directly related to the survival of the business. A risk taken or not taken may put everything in jeopardy.

Contrary to the beliefs of many, that small business are no different from big businesses, this study has

delivered a full perspective and concluded that small businesses are different from big businesses in almost every conceivable way. When tested on the tools of big business, small businesses have shown that they plan and formulate strategy in shorter term cycles than big businesses; they emphasize customer orientation and show flexibility that big businesses can only hope to achieve; and they allow entrepreneurial behaviour to flourish, maximizing the individual influence on business success. However, the drawback of this may be that the weaknesses of key organizational members (i.e. owner/manager) may also become the weaknesses of the organization. In addition, small firms must often deal with a huge amount of growth, therefore being in a state of constant organizational change.

Small business owners/managers must constantly perform at their highest capacities while facing difficulties in all disciplines and at all levels of their organizations. They are the true business men and women in North America.

6.10 LIMITATIONS OF THE STUDY

The main limitation of this study is its lack of generalizability. It was conducted only in the City of Saskatoon, Saskatchewan. The study does not take into

account such variables as different sizes of communities and regional economic disparities affecting the health of businesses in other parts of the country. The results may only apply to other businesses in similarly sized Western Canadian urban centres. This leaves out a significant portion of Canadian small businesses. A suggestion for future study is to administer the same study in other cities across the country.

A second limitation is the problem of respondent comprehension of the business terms used in the questionnaire. This issue of semantics may be illustrated in the ambiguity found in the most common of business terms. Terms such as *strategy* have been defined in a number of different ways. It is possible that the respondents all have different definitions of the terms found in the questionnaire. If this is true, then it may be more difficult to accurately interpret and apply the results of this study.

A third limitation to this study is the assumption that if a business perceived a tool to be important and/or used a particular tool, it performed that task well. The questionnaire merely surveyed the perceived importance and use of the tools, rather than trying to determine the quality of task performance. It is

possible that some small business may be more efficient than other businesses at performing certain tasks, making generalizations about their actual effect on business health somewhat difficult.

A fourth limitation is the use of growth as the indicator of business health. Using strictly growth indicators requires the assumption that a business can not be healthy if it is not growing. This ignores the fact that external circumstances and influences such as the state of the economy and government assistance also affect the ultimate growth of a small company. It also ignores the fact that some businesses owners/managers may not be willing to give up any control over their firms. In other words they are perfectly content with holding a business at a personally manageable size. This may also apply to new companies started by people wishing to subsidize their incomes or create short term employment for themselves between jobs.

A small company that does not grow can be considered healthy, but only in a relative sense. If a small company does not wish to grow then growth can not be used as a measure of their success. However, small business that remains small will never be considered a success when compared to other firms. Nor will stake holders be

content to let a small firm with great potential waste the opportunities that could lead to growth and substantial return on their investment. So, while there are arguments against growth as a definitive measure of business success, the fact remains that growth and success are practically synonymous in the world of small business.

A fifth limitation is the fact that in some cases the results were weak. The regression analysis showed that the indexes and their respective individual items explained only small variance in business health. Perhaps adding another dimension to the definition of business health would be of some help with this problem. Nevertheless, in spite of this problem many significant results were obtained and a closer look at the factors contributing to business health was accomplish.

6.11 RECOMMENDATIONS FOR FUTURE RESEARCH

The main weakness of this study is its lack of ability to explain a great deal of the variation in business health. A key reason for this is the study did not control for the external and environmental influences. This was also suggested by Robinson & Pearce (1983) as an issue that should be addressed in small business studies. It is recommended that in future

studies of small business some broad environmental factors be explored.

A second recommendation for future research into small business health is to include more small to mid-sized cities. Saskatoon, is a good place to start; however, to increase the generalizability of the results a greater sample must be collected and more locations need to be included. This will reduce the bias inherent in only sampling one city and increase the prospects of finding more significant results such as explaining more variance in business health.

A third recommendation is to use personal interviews instead of collecting data through mail-out questionnaire. This would help alleviate the some of the problems with semantics because an interviewer would be present to define and clarify the more technical terms used in the questionnaire. This technique would most certainly increase the robustness of the data.

A fourth recommendation is to obtain responses from more sick businesses. This would address the problem of skewing the distribution of business toward the healthy rating. It may also allow a predictive model to be built which better predicts sick businesses.

A fifth and final recommendation is to broaden the definition of business health to not only include growth factors but more traditional measures as well. These might include last years profit margin and/or return on investment. These will add another dimension to the concept of business health and allow the issue of potentially healthy (profitable) firms which are not growing to be investigated.

6.12 SUMMARY

The primary objective of this research study was to bring together a number of commonly researched areas of small business and explore them simultaneously. This objective has been achieved with the findings that Strategic Management, Marketing Orientation, and Entrepreneurial Orientation positively affect business success while Financial Management does not. A secondary objective was to build a predictive model of business health. This was accomplished and the resulting model predicts business health with 71.29% accuracy. This model can help small businesses diagnose their health and indicate the areas where they could clearly improve their strategy, marketing, finance and entrepreneurial influence.

By meeting these objectives, a deeper look into why small businesses succeed or fail has been achieved. The long prescribed big business tools clearly do not apply to small business management in many situations. The factors that contribute to small business success tend to be short term and operational in nature as opposed to the strategic issues as previously thought. It is through this fresh perspective and the insights like those in this study that small business survival rate may be significantly improved.

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APPENDIX A
CORRESPONDENCE WITH THE SAMPLE



COLLEGE OF COMMERCE

University of Saskatchewan, Saskatoon, Saskatchewan, Canada S7N 0W0

Aug 3, 1993

Dear Owner/Manager,

For every five businesses that start as new ventures only one survives. Despite this rate, no one really knows why so few small businesses are successful.

Your firm is one of Saskatoon businesses from which the owners/managers are being asked to give opinions on the health of their business. To obtain representative results it is extremely important that each business respond to the survey.

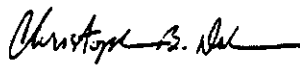
Each owner/manager that returns a completed questionnaire will receive a personal report on the individual health of their business with respect to best practices as indicated by management research and the average response received from the study. There is usually a significant dollar value attached to such business consulting. In return for your time, we provide you with a useful report. Think of the opportunity cost that your firm may incur by not participating.

The identification number on this questionnaire is for mailing purposes only. This is so that your firm may be checked off the mailing list to receive your private report, generated at the end of the study. The name of your firm will never be disclosed. You are guaranteed complete confidentiality.

We would be delighted to answer any questions you might have. Do not hesitate to write or call. We can be reached by telephone at 966-8437 or fax at 966-8709.

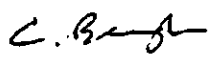
Thank you for your assistance.


Sincerely,


Brooke Dobni
Assistant Professor,
College of Commerce


Dave Fairlie
Manager, Saskatoon
Economic Development
Authority


Dwight Percy
Executive Director,
Saskatoon Chamber of
Commerce


Cory Bergh
Researcher,
College of Commerce


Dr. Rein Lepnurm
Project Director,
College of Commerce

Dept. of Accounting
Dept. of Finance and Management Science
Dept. of Industrial Relations and Organizational Behaviour
Dept. of Management and Marketing

(306) 966-8396
(306) 966-8429
(306) 966-8450
(306) 966-8433

Office of the Dean
General Office
TELEX #
FAX #

(306) 966-4786
(306) 966-4785
074-2659
(306) 966-8709

Dear Owner/Manager,

Last week a questionnaire seeking your insight into the health of your business was mailed to you.

If you have already completed and returned it to us please accept our sincere thanks. If not, please do so today. By responding to the survey you and your firm will not only contribute to the understanding of small business success and failure but *you will also gain directly. An exclusive report will be delivered to each responding firm at the end of the study.* Confidentiality is guaranteed.

If for some reason you have not received the questionnaire, or it has been misplaced, please contact us today (telephone 966-8437 or fax 966-8709) and we will get another one to you in the mail.

Sincerely,



Cory Bergh
Researcher,
College of Commerce



Dr. Rein Lepplurm
Project Director,
College of Commerce

→ COLLEGE OF COMMERCE



University of Saskatchewan, Saskatoon, Saskatchewan, Canada S7N 0W0

September 13, 1993

Dear Owner/Manager,

About one month ago we wrote to you seeking your insights and opinions on the health of your business. If you have already completed and returned the questionnaire please accept our sincere thanks. We know that you probably receive all sorts of requests in the mail. However, this one promises value in return for your time.

Enclosed is a one page example of the private report that each responding firm will receive. This report will include each item on the questionnaire with your response, the average response, and the ideal response indicated in the literature. With this report, you may evaluate the health of your firm with respect to best business practice and actual practice.

If you would like to receive a private report covering the best business practices in strategic management, marketing orientation, financial management, and managerial influence, *at no charge*, then please take the time to complete the questionnaire.

Do not hesitate to call or write if you have questions. We can be reached by telephone at 966-8437 or fax at 966-8709.

Your cooperation is greatly appreciated.

Sincerely,

Cory Bergh
Researcher
College of Commerce

Dr. Rein Lepurum
Project Director
College of Commerce

100 Accounting
101 Finance and Management
102 Marketing, Sales and Administrative Services
103 Management and Marketing

104 966-8437
105 966-8437
106 966-8437
107 966-8437

Office of the Dean
General Office
TELEX #
FAX #

108 966-8709
109 966-8709
110 966-8709
111 966-8709

Dear Owner/Manager,

About six weeks ago we sent you a questionnaire seeking your wisdom regarding *business health*. For your convenience we have mailed you a replacement copy along with an example of the private report you will receive if you respond.

If you have completed and returned the questionnaire, please accept our sincere thanks. If not, please take a closer look at the example of the private report you will receive after responding. The information that the full report will provide is designed to help your business prosper. All we ask is for your business knowledge and your time.

If you have questions or concerns please contact us today (telephone 966-8437 or fax 966-8709).

Sincerely,



Cory Bergh
Researcher,
College of Commerce



Dr. Rein Lepparm
Project Director,
College of Commerce

COLLEGE OF COMMERCE



University of Saskatchewan, Saskatoon, Saskatchewan, Canada S7N 0W0

November 1, 1993

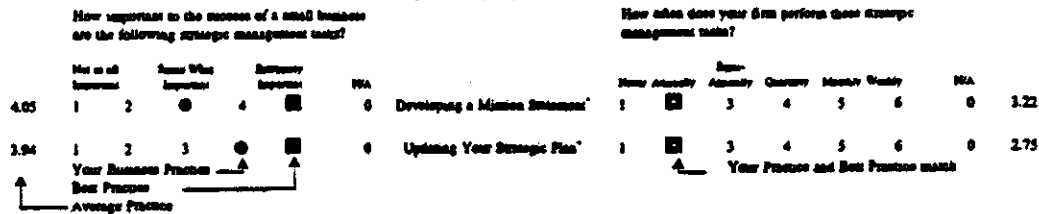
Dear Owner/Manager,

Over the past three months we have sent you two copies of a questionnaire on Business Health. We know you may feel that completing the questionnaire reveals too much about your business. However, the only results that all participants will see are the average responses. *At no time will your individual data be released.*

We will take the time to enter your individual responses on your private report, so that you can see how your business practices compare to the best practices and the average practices for Saskatoon. You will gain more information than you will have to reveal. Think about it.

EXAMPLE

STRATEGIC MANAGEMENT



These are merely examples of several items on the questionnaire.

So far the response rate is above average because we offer a fair exchange. You get a useful report in return for your time in helping us conduct solid research. The results are expected in mid to late January 1994 and if you respond you will be receiving your private report at that time. If you have any questions or concerns please do not hesitate to contact us by phone at 966-8437 or fax at 966-8709.

Your contribution is greatly appreciated!

C. Bergh
 Cory Bergh
 Researcher
 University of Saskatchewan

Rein Lepnum
 Dr. Rein Lepnum
 Project Director
 University of Saskatchewan

Dept: Accounting
 Dept: Finance and Management Science
 Dept: Industrial Relations and Organizational Behaviour
 Dept: Management and Marketing

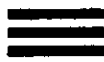
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Office of the Dean
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3061 466 4756
 3061 466 4755
 3061 466 4754
 3061 466 4753

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0182892499-S7N0W6-6R01

Professor R. Leppur
MANAGEMENT AND MARKETING
College of Commerce
University of Saskatchewan
SASKATOON, Saskatchewan
S7N 9Z9

APPENDIX B
THE DATA COLLECTION INSTRUMENT

A Survey of Business Health

The theory of best business practice often differs from the reality of day to day business operations. Each section will ask your opinions on what is important to the ultimate success of a small business. Then, you will be asked to indicate how much of a role each of the same items play in your own business.

Section I : Strategic Management

A review of Management literature indicates the importance of Market Planning, Financial Planning, Human Resource Planning, and Planning for Emergency Circumstances to business operations. The basis for these plans are in the feedback which can come from managers, employees, or customers. Feedback is the communication of favourable or unfavourable results to owners and top management. This section will explore the planning, implementation, and feedback practices of your firm.

For each listed task, circle the one appropriate response on the left and then again on the right.

How important to the success of a small business are the following strategic management tasks?

How often does your firm perform these strategic management tasks?

How important to the success of a small business are the following strategic management tasks?						How often does your firm perform these strategic management tasks?						
Not at all important	Some What Important		Extremely Important	N/A		Never	Annually	Semi-Annually	Quarterly	Monthly	Weekly	N/A
1	2	3	4	5	0	1	2	3	4	5	6	0
						Setting Measurable Objectives						
						Formulating Strategy						
						Regular Management Meetings						
						Marketing Planning						
						Human Resource Planning						
						Emergency Planning						
						Financial Planning						
						Use of Outside Advisors						
						Employee training						
						Delegation of Authority						
						Use of Employee Feedback						

On the average, how many hours do you spend weekly on your business? _____

Of the above hours, how many are spent specifically on planning? _____

Of the hours allocated to planning, what proportion do you spend on each of the following? Divide 100 points among the different planning efforts. For example, if financial planning takes up half of your time, market planning is secondary, and the others take less time, you might distribute the points as 50, 30, 10, 10.

Market Planning _____%	Human Resource Planning _____%
Financial Planning _____%	Planning for Emergencies _____%
Other _____% (please specify) _____	

When you seek strategic advice outside your firm, where do you go most frequently (Please check those that contribute valuable advice)?

- | | |
|---|--|
| <input type="checkbox"/> A Lawyer | <input type="checkbox"/> A Professional Business Consultant |
| <input type="checkbox"/> An Accountant | <input type="checkbox"/> A Bank Manager |
| <input type="checkbox"/> Another Small Business Owner | <input type="checkbox"/> A local business Association (i.e. Chamber of Commerce) |
| <input type="checkbox"/> Do not seek outside advice | <input type="checkbox"/> Other (please specify) _____ |

Which people central to your firm, including yourself, are involved in or responsible for the following strategic tasks (Please check all that apply)?

	Myself	Subordinate Manager(s)	Other Employees	Customers	None
Setting Goals and Objectives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Strategy Formulation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Implementation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Control and Evaluation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Feedback	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Briefly describe the basic steps used in your firm that lead to formal strategic plans.

Section II : Marketing Orientation

Marketing literature stresses the importance of tailoring the product that is offered to meet precise needs of specific customer groups. A firm must first select a specific market segment, thoroughly analyze the targeted segment, develop the marketing mix (product, price, promotion, distribution) strategy, and finally monitor how well the market needs are met through market position analysis. This section will examine the use of marketing practices in your own firm.

For each listed task, circle the one appropriate response on the left and then again on the right.

How important to the success of a small business are the execution of the following marketing tasks?

How often does your firm perform these marketing tasks?

How important to the success of a small business are the execution of the following marketing tasks?					How often does your firm perform these marketing tasks?								
Not at all important	Some What Important		Extremely Important		N/A		Never	Annually	Semi-Annually	Quarterly	Monthly	Weekly	N/A
1	2	3	4	5	0		1	2	3	4	5	6	0
					0	Identification of Target Market(s)							
					0	Determining Customer Needs							
					0	Analyzing Ability to Meet Customer Needs							
					0	Designing Products/Services							
					0	Setting Pricing Strategy							
					0	Establishing Promotional Strategy							
					0	Securing Distribution Channels							
					0	Market Forecasting							
					0	Meeting Customer Needs							
					0	Recognizing Shifts in Consumer Taste							
					0	Monitoring Competitors							
					0	Evaluating Market Share							
					0	Adjusting Marketing Strategy as Required							

In a few sentences, please describe how your firm goes about collecting market information about your customers.

Similarly, please describe how your firm gathers information about your competitors.

Section III : Financial Management

Studies have shown that small businesses use many financial techniques to monitor the financial health of their firms. These tools include regular review of the firm through projected or proforma statements, maintenance of cash flow, financial ratio analysis (accounts receivable maintenance, inventory management), and break even analysis. This section will investigate the use of these financial tools in your business.

For each listed task, circle the one appropriate response on the left and then again on the right.

How important to the success of a small business are the following financial tasks?						How often does your firm use these financial tasks?							
Not at all Important	Some What Important		Extremely Important		N/A		Never	Annually	Semi-Annually	Quarterly	Monthly	Weekly	N/A
1	2	3	4	5	0		1	2	3	4	5	6	0
						Preparing Financial Statements							
						Preparing a Budget							
						Analyzing Financial Statements							
						Accounts Receivable Maintenance							
						Maintaining Cash Flow							
						Inventory Management							
						Determining the Break Even Point							
						Analyzing differences between Planned and Actual Financial Results							

A special part of financial management is ratio analysis. This process compares financial figures from proforma financial statements to generally accepted standards. The four categories of these ratios and some examples are as follows.

Liquidity:	Receivable Turnover = Net Credit Sales / Net Credit Average Receivables
	Inventory Turnover = Cost of Goods Sold / Average Inventory
Turnover:	Current Ratio = Current Assets / Current Liabilities
	Quick Ratio = (Current Assets - Inventory) / Current Liabilities
Profitability:	Net Profit Margin = Net Income / Sales
	Return on Equity = Net Income / Shareholders Equity
Debt and Asset:	Total Debt to Total Assets = Total Debt / Total Assets
	Debt to Equity = Total Debt / Shareholders Equity

How important to the success of a small business are the these types of ratios?						How often does your firm use these ratios for your own analysis?							
Not at all Important	Some What Important		Extremely Important		N/A		Never	Annually	Semi-Annually	Quarterly	Monthly	Weekly	N/A
1	2	3	4	5	0		1	2	3	4	5	6	0
						Liquidity Ratios							
						Turnover Ratios							
						Profitability Ratios							
						Debt and Asset Ratios							

Which of the following methods does your firm use most often to generate financial documents (Please check only one)?

- Computer accounting package
 Accountant
 By hand
 Other (please specify) _____

Briefly describe the influence that financial management has on the success of your business.

Section IV: Managerial Influence

Managers are integral to the success of a business. They not only set the goals and make the plans, but carry them out as well. Managerial style has a definite influence on business results. This section asks your opinions on managerial nature and motivation.

For each listed characteristic, circle the one appropriate response on the left and then again on the right.

How important are the following characteristics of a business person to the success of their respective business?

How well do these characteristics describe you with respect to the role you play within your own business?

Not at all Important 1	2	Some What Important 3	4	Extremely Important 5	N/A 0		Very Poor 1	Poor 2	Some What 3	Well 4	Very Well 5	N/A 0
						Opportunity Seeker						
						Rational						
						Total Control						
						Intuitive						
						Need to Achieve Goals						
						Systematic						
						Independent Minded						
						Adaptable						
						Risk Taker						
						Experience						
						Innovator						
						Growth Oriented						
						Entrepreneur						

In a few sentences, please describe the positive and negative influences you personally have on your business.

Section V: Assessing Business Health

There are a number of vital signs that must be checked in order to assess the health of the individual business. This section, in a manner of speaking, takes the pulse of your firm.

What has been the change in each of the following indicators of business health for your firm over the past two years (please check only one for each)?

	Decreased by 20% or More	Decreased by 1% to 19%	No Change	Increased by 1 to 19%	Increased by 20% or More
Sales volume	[]	[]	[]	[]	[]
Profit	[]	[]	[]	[]	[]
Gross Margin	[]	[]	[]	[]	[]
Cash Flow	[]	[]	[]	[]	[]
Costs	[]	[]	[]	[]	[]

Please comment on the overall health of your business in a few sentences.

List the three most important reasons for the overall health of your firm.

[1]

[2]

[3]

What are the three most significant obstacles facing your organization in the next three years?

[1]

[2]

[3]

If anything could be made available to your firm to improve future business results, what would it be?

Section VI : Demographics

The demographic sections of questionnaires include some of the most important questions that a researcher can ask. These questions and their subsequent answers allow the data collected earlier in the questionnaire to be arranged in meaningful categories.

How long has your firm been in operation (years)? _____

How long have you been with the firm (years)? _____

What management position do you hold within your firm?

- Sole Proprietor
 Partnership
 Manager
 Other (Please Specify) _____

What is the highest level of education that you have completed?

- Some high school
 High school diploma
 Some post secondary
 University degree
 Graduate degree
 Other (Please Specify) _____

How many managers, including yourself, does your firm employ? _____

How many other workers does your firm employ? Full Time _____ Part Time _____

What were your firm's gross sales for the last fiscal year?

- <= \$100,000
 \$100,001 - \$250,000
 \$250,001 - \$500,000
 \$500,001 - \$750,000
 \$750,001 - \$1,000,000
 > \$1,000,000

In which business sector(s) does your firm operate?

- Services Retailing
 Manufacturing Distributing
 Other (Please Specify) _____

From how many locations in the province does your firm distribute its product or service? _____

Thank you for your cooperation in completing this questionnaire. The data collected in this survey is extremely important because it will benefit, not only your firm, but the entire provincial business community by broadening the understanding of small business practice and its effect on our community's prosperity. By completing and returning this questionnaire your firm will receive a personal and exclusive report, however, the name of your firm will remain completely confidential.

APPENDIX C

CORRELATIONS BETWEEN ENTREPRENEURIAL ORIENTATION AND
THE TOOLS OF BUSINESS

Correlations Between Entrepreneurial Orientation (imp) and Marketing Orientation (imp)

Opportunity Seeker	0.2507**	0.3158**	0.2886**	0.1372*	0.0680	0.2121**	0.1888**	0.2540**	0.1229	0.1852**	0.1434*	0.2009**	0.2815**
Rational	0.2185**	0.1355*	0.4180**	0.2866**	0.2189**	0.1917**	0.2465**	0.2950**	0.2528**	0.2403**	0.1167	0.2928**	0.3910**
Total Control	-0.0143	0.0459	0.1349*	-0.0327	0.0194	-0.0103	0.0277	0.0012	0.0481	0.0294	0.0951	0.0482	0.0425
Intuitive	0.3088**	0.2119**	0.4612**	0.2738**	0.2036**	0.2602**	0.2483**	0.2829**	0.1788**	0.2466**	0.2098**	0.3531**	0.3976**
Need to Achieve Goals	0.2707**	0.3016**	0.3279**	0.1917**	0.1680**	0.1921**	0.2134**	0.2572**	0.1532*	0.1353*	0.1898**	0.3345**	0.2903**
Systematic	0.1916**	0.0536	0.3430**	0.2184**	0.1686**	0.1012	0.2310**	0.2128**	0.1619*	0.2170**	0.1023	0.2357**	0.2498**
Independent Minded	0.1899**	0.1759**	0.2142**	0.0636	0.0408	-0.0157	0.0107	0.1141	0.1438*	0.1059	0.0648	0.1417*	0.1667*
Adaptable	0.2533**	0.2741**	0.4436**	0.1913**	0.2315**	0.1418*	0.2319**	0.3311**	0.2502**	0.2947**	0.2088**	0.2972**	0.3569**
Risk Taker	0.2258**	0.2107**	0.1960**	0.1868**	0.0243	0.1500*	0.0898	0.1709**	-0.0011	0.0523	0.0838	0.1677*	0.1290*
Experience	0.1126	0.2538**	0.2609**	0.1383*	0.1121	0.1567*	0.0371	0.1655*	0.1794**	0.1260	0.0457	0.1368*	0.0803
Innovator	0.2263**	0.2107**	0.3035**	0.2399**	0.1619**	0.2776**	0.1861*	0.2441**	0.0924	0.2162**	0.2695**	0.4030**	0.2776**
Growth Oriented	0.1362*	0.2291**	0.2823**	0.1062	0.0509	0.1377*	0.1463*	0.2892**	0.1655*	0.1942**	0.2297**	0.3238**	0.2828**
Identificaton of Target Market													
Determining Customer Needs													
Analyzing Ability to Meet Customer Need													
Designing Products/Services													
Setting Pricing Strategy													
Establishing Promotional Strategy													
Securing Distribution Channels													
Market Forecasting													
Meeting Customer Needs													
Recognizing Shifts in Consumer Taste													
Monitoring Competitors													
Evaluating Market Share													
Adjusting Marketing Strategy as Require													

* p < 0.05 ** p < 0.01

Correlations Between Entrepreneurial Orientation (imp) and Strategic Management (imp)

Opportunity Seeker	0.2085**	0.1774**	0.1565*	0.2365**	0.1096	0.0707	0.1889**	0.0858	0.1918**	0.1908**	0.1744**
Rational	0.1522*	0.2919**	0.1558*	0.2453**	0.1577*	0.1502*	0.1608*	0.0856	0.2168**	0.2738**	0.2792**
Total Control	0.0904	0.0977	-0.0718	-0.0153	0.0821	-0.0254	0.0760	-0.0505	0.0117	0.0646	-0.0089
Intuitive	0.2107**	0.1973**	0.1506*	0.1618*	0.0632	0.1491*	0.0594	0.0615	0.1944**	0.2150**	0.1642*
Need to Achieve Goals	0.4347**	0.3466**	0.2559**	0.2946**	0.1925**	0.1629*	0.1566*	0.1682**	0.1723**	0.2869**	0.2484**
Systematic	0.1788**	0.1925**	0.1273	0.1388*	0.1536*	0.0638	0.0853	0.1043	0.1192	0.2184**	0.1597*
Independent Minded	0.0428	0.0798	-0.0369	0.0279	-0.0137	0.0143	-0.0104	-0.0085	0.0215	0.1434*	0.0488
Adaptable	0.2005**	0.3518**	0.1973**	0.2308**	0.1708**	0.2216**	0.1174	0.1469*	0.3363**	0.3615**	0.3284**
Risk Taker	0.2333**	0.1525*	0.1154	0.1193	0.0684	-0.0046	0.0270	0.1436*	0.0998	0.1598*	0.1289*
Experience	0.1799**	0.1028	0.0617	0.1436*	0.1401*	0.0258	0.1924**	0.0039	0.1475*	0.1542*	0.1703**
Innovator	0.2333**	0.2549**	0.2637**	0.3019**	0.2176**	0.1720**	0.0961	0.1749**	0.3183**	0.4197**	0.3204**
Growth Oriented	0.2021**	0.1896**	0.2125**	0.1794**	0.2419**	0.2036**	0.1402*	0.2019**	0.2567**	0.3106**	0.2649**

* p < 0.05 ** p < 0.01

Correlations Between Entrepreneurial Orientation (imp) and Financial Management (imp)

	Preparing Financial Statement	Preparing a Budget	Analyzing Financial Statement	Accounts Receivable Maintenance	Maintaining Cash Flow	Inventory Management	Determining the Break Even Point	Analyzing Variances	Liquidity Ratios	Turnover Ratios	Profitability Ratios	Debt & Asset Ratios
Opportunity Seeker	0.1252	0.1011	0.1155	0.2247**	0.1030	0.1124	0.1608*	0.2146**	0.2064**	0.1563*	0.2524**	0.1559*
Rational	0.1676**	0.1686**	0.2322**	0.3251**	0.1247	0.1555*	0.1648*	0.2409**	0.2789**	0.1861*	0.1947**	0.1611*
Total Control	0.0420	-0.0018	0.0075	0.0854	0.0166	0.0731	0.2151**	0.0720	0.0996	-0.0145	0.0055	0.0687
Intuitive	0.0899	0.1348*	0.0714	0.1715**	0.1089	0.1402*	0.2264**	0.1867**	0.2512**	0.1255	0.2012**	0.1176
Need to Achieve Goals	0.1935**	0.2975**	0.1648*	0.2618**	0.0897	0.0958	0.1500*	0.3341**	0.2771**	0.1822**	0.3587**	0.1995**
Systematic	0.1401*	0.2138**	0.0795	0.1232	0.0551	0.1542*	0.1681*	0.1777**	0.2041**	0.1608*	0.1191	0.1174
Independent Minded	-0.0106	-0.0073	-0.0712	0.2335**	0.0408	-0.0454	0.0041	-0.0114	0.1175	0.0401	0.1213	0.1115
Adaptable	0.1248	0.2717**	0.1428*	0.2052**	0.1196	0.0985	0.2665**	0.2396**	0.2129**	0.1928**	0.2940**	0.1712**
Risk Taker	0.1347*	0.1429*	0.0868	0.2058**	0.1044	0.0183	0.0467	0.1197	0.0961	0.1051	0.2380**	0.1112
Experience	0.2060**	0.0872	0.1933**	0.0872	0.0690	0.1250	0.1886**	0.1859**	0.1628*	0.1625*	0.1737**	0.1268
Innovator	0.2230**	0.2322**	0.1341*	0.1395*	0.0724	0.2064**	0.1628*	0.2278**	0.2367**	0.2277**	0.2503**	0.2107**
Growth Oriented	0.1785**	0.2220**	0.1521*	0.1365*	0.0303	0.1592*	0.1696**	0.2100**	0.2726**	0.2515**	0.2232**	0.2031**

* p < 0.05 ** p < 0.01