Small Firm Owners in New Zealand: In it for the 'good life' or growth?

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Abstract

Developing a 'profile' of a SME owner – either as a means of understanding the characteristics of a 'successful' individual or to better predict what intentions, goals, or strategies pave the way to firm growth, remains a preoccupation for researchers. In this pursuit, a number of useful descriptors and typologies have been put forward, including those that focus on making the distinction between 'growth-rejecting' and 'growth-enthusiastic' SME owners. One such descriptor that has achieved consistent use, and perhaps abuse, is that of the 'lifestyle' SME owner. This paper reports on the findings of a project that studied New Zealand SMEs in the context of business growth. Site visits and in-depth interviews were carried out with the owner or manager of a random sample of 50 firms throughout New Zealand. This paper contributes to a better understanding of SME growth and the applicability of business growth models to SMEs in a New Zealand context, and puts forward an alternative categorisation of those described as 'lifestyle' owners.

Keywords: SMEs, growth, lifestyle, New Zealand.

Introduction

As the body of knowledge on small and medium enterprises (SMEs) has grown, the focus of empirical work has become increasingly diverse. A topic that has remained a priority for researchers is the pro le of a SME owner either as a means of understanding the characteristics of a successful individual or to better predict what intentions, goals or strategies pave the way to rm growth. As a means of capturing such data, a number of useful descriptors and typologies have been put forward, including those that focus on making the distinction between growth rejecting and growth enthusiastic SME owners.

One such descriptor that has achieved consistent use, and perhaps abuse, is that of the lifestyle SME owner. This has come to be considered a well-understood and useful manner to describe those SME owners who share certain characteristics (i.e. have micro rms, operate to achieve personal objectives or a satisfactory level of income, and are growth averse). However, as the nature of owner intentions and rm growth becomes better understood there comes a time for alternative descriptors to be put forward, if only to stimulate debate and ensure that those historically accepted terms are still those that best t the reality experienced by SME owners of the 21st century.

This article reports on the ndings of a project that studied New Zealand SMEs in the context of business growth and aimed to contribute to a better understanding of SME growth in a New Zealand context. It also puts forward an alternative categorisation for those individuals who thus far in the literature have been described as lifestyle owners.

Research on business growth and SMEs

Firm growth is a well investigated phenomenon with an associated body of literature. Four approaches to understanding growth in SMEs can be described: personality dominated approaches (focusing on the impact of owner personality and capability on growth); organisation development approaches (which seek to characterise stages of development); business management approaches; and, sectoral approaches (Gibb & Davies, 1990, in Poutziouris, Binks & Bruce, 1999). Of these four theoretical approaches, personality and organisation development approaches are the most relevant to consider in relation to this article.

The dominant explanatory organisation development model of SME growth that has been put forward is a stages approach and one of the most frequently cited examples is that of Churchill & Lewis (1983). This model is based on the conceptualisation that the rm passes through a sequence of ve stages of development with each stage being characterised by an index of size, diversity and complexity (O Farrell & Hitchens, 1988). Other stage models have also associated particular developmental milestones or transitions with generic management problems and organisational characteristics (Watts, Cope & Hulme, 1998).

Despite their popularity, the stage models of SME growth put forward in the literature have been criticised on a number of grounds. One of the shortcomings that has been identi ed is the ambiguity regarding the progress of a rm through the prescribed stages. The assumption is that a rm will pass through all the stages sequentially and as such, no provision is made for variations in sequence or skipping of stages (O Farrell & Hitchens, 1988). So progression (in the guise of economic growth) is not only assumed to be desirable, it is also thought to be inevitable and linear (Beverland & Lockshin, 2001). As Gray suggests, this weakness stems from the fundamental neo-classical economic assumptions which ignore the reality of small business management and the fact that a tiny minority of small rms ever grow to the size where internal functional divisions and professional top management teams are in any way feasible (1993, p 150).

Another signi cant concern with stage models is that the majority assume that all SMEs will either grow and pass through all the stages, or fail in the attempt (O Farrell & Hitchens, 1988). The reality is that there are limited, if any, empirical data to back up such assumptions, and such a viewpoint fails to account for a number of capped growth con gurations that exist within the SME population. Indeed, what McMahon (2001) describes as arrested development con gurations are commonplace in many SMEs (for example, the lifestyle business and the business electing for deliberately restricted growth).

Capped growth SMEs are just one type that has been put forward among multiple typologies and categorisations related to SME growth. In an attempt to better understand how growth is manifested in SMEs a number of authors have found it useful to derive descriptive labels from their empirical work in order to shed light on growth in terms of the rm, rather than the owner. For example, O Farrell and Hitchens (1988) put forward three types of small enterprises: (1) fast growers; (2) satis ers and (3) those which attempt fast growth but which fail (1988, p 1371). Storey (1993, in Storey, 1994) came up with similar groupings but labelled them failures, trundlers (those that survive but don t add to job creation) and yers. Another example relating to micro rms put forward four groupings: growth rejecting, growth ambivalent, growth enthusiastic and non-employment growth (technically a sub-group of growth enthusiastic) (Baines, Wheelock, & Abrams, 1997). McMahon (2001) in an Australian context also put forward three categories: traditional or lifestyle businesses (having few if any growth aspirations); capped growth SMEs (having a moderate growth and development pathway); and entrepreneurial SMEs (following the high growth development pathway). Another recent example of such a categorisation is from Bridge, O Neill and Cromie (2003), who also describe three categories: lifestyle, comfort zone (providing its owner with suf cient returns for the level of comfort he or she wants in life) and growth. These different categorisations demonstrate how growth in terms of the rm has come to be described in the literature and illustrates how the phrase lifestyle has come to be included in such descriptions.

It is also clear as a result of investigations into SME growth, that it is unlikely that there will ever be created a generic model of SME rm growth or a typology that accounts for all types of SME growth. There is no doubt that if applied selectively, many models will be able to shed light on certain dimensions of a rm s experience, but, as Beaver emphasises, what is certain is that the growth process is different for every enterprise and the practitioners that set up and manage them (2002, p 129-30). As a result, emphasis on understanding the motivations of owners towards growth is important. In the literature, this has been represented by what has been described as personality oriented approaches to growth that focus on better understanding of how the attitudes and motivation of the SME owner in uence growth.

The in uence of the growth intentions and attitudes of founders has been found to be critical (Gray, 1993; Watts, Cope & Hulme, 1998; Ennis, 1999; Mochrie, Galloway & Donnelly, 2006; Delmar & Wiklund, 2008). A situation that is not accounted for by stage models, which instead basically ignore the owner or manager as economic actors treating them instead as descriptive devices, almost as markers on a notional growth curve (Gray, 1993, p 151). The more business-minded an owner is found to be, the more pro-growth the rm is i.e. those who prefer to de ne their interests and independence in business terms are more likely to want to pass through the various stages of entrepreneurial growth (Gray, 1993, p 154). But, even growth-oriented owners have been found to begin to slacken off as they get near or attain their original targets (whether explicitly stated or implicitly felt) (Gray, 1993). Gender also in uences the way in which growth aspirations are formulated and enacted. For example, Morris, Miyasaki, Watters and Coombes (2006) found that women who were pulled into entrepreneurship through opportunity recognition were more likely to be growth-oriented than those who were pushed into the same endeavour through negative circumstances (e.g. job loss or economic necessity).

Investigating the attitudes of SME owners to growth has revealed a whole group of owners for whom growth will never be an objective or a measure of business success. For this group there are over-riding concerns that are non-economic that drive the direction and operations of their business. Such divergent motives have been captured by various descriptive dichotomies within the literature, which have in turn contributed to the creation of a label for the aforementioned group of lifestyle owners.

The lifestyle descriptor is based, in essence, on the distinction between the craftsman (sic) and the opportunistic owner (Smith & Miner, 1983, in Baines & Wheelock, 1998) or what Tregear (2005) labelled artisan and opportunist . The former are seen to be money-motivated and growth-oriented and the latter less so. Since then, a number of other contributions have been put forward that address the middle ground between the inherent dualisms presented. For example, Gray (1991, in Baines & Wheelock, 1998) put forward a third middle grouping that is driven in its endeavours by the need for economic security, therefore creating three groups: money , lifestyle and safety . Storey wrote that the motivation for starting a business could, in crude terms, be divided into positive (leading to growth) and negative terms, and included in the negative group were founders who seek to establish a lifestyle business, designed solely to provide a satisfactory level of income to the business owner (1994, p 128).

Lifestyle owners have therefore been variously described, but what is common to all the examples is the implied or explicit choice of a non-economic imperative over growth and or pro t. Deakins and Freel describe lifestyle owners as those who in the past have been normally called sole traders, employed few or no people and their major objectives were likely to be concerned with survival and ensuring that the business provided them and their family with suf cient income in other words, the owner is only concerned with maintaining a lifestyle that he or she may have been accustomed to in a previous form of employment (2003, p 277). Bridge, O Neill and Cromie de ne lifestyle as a description of a business that is run by an individual because it not only facilitates, but is also part of, the lifestyle that individual wants to have (2003, p 186). Burns adds that level of income is often determined by level of comfort : life-style business that has been set up to provide the owner with an acceptable income at a comfort level of activity (1996, p 5). For McMahon, lifestyle businesses principally exist to provide their owners with a source of employment and income. Furthermore, they are frequently operated in a manner consistent with the life-style aspirations of their owners (2001, p 210). Therefore, lifestyle businesses are viewed as primarily accommodating the desires of the owner with regard to how they wish to live their life in non-economic terms. Most often this conscious choice to operate as a lifestyle business is accompanied by a parallel de-emphasis on the process of growth or expansion.

Indeed, research suggests that for many lifestyle business owners an important reason for investing in small business is that it provides an extent of control over one s life that is not available when employed by a large organisation (Holmes & Zimmer, 1994, p 101). Part of the control that self-employment offers that appeals to lifestyle owners is the ability to better in uence the interaction of family and work dimensions of life. This is yet another example of the outmoding of the separation of family and work in the world of self-employment (Ram & Holliday, 1993).

Other than in the context of SME growth little has been written about lifestyle owners and their businesses, except in prescriptive terms or in the popular press. One example is Schine s work that describes lifestyle owners as anyone who wants to spend the career portion of his or her life doing something that doesn t t neatly into a current job or any other job likely to be available. (2003, p 7) and outlines how to operationalise a lifestyle oriented business. However, writing about the tourism industry, where SMEs have a strong presence globally, has recently begun to contribute much to the discourse surrounding lifestyle businesses and their owners for example, Hall and Rusher (2004) and Komppula (2004). According to Ateljevic and Doorne (2000), lifestyle motives within tourism are seen as a signi cant feature of small rms in the sector and, for some owners, lifestyle was a strategic business objective. Indeed, as a result of an in-depth study, they identify tourism entrepreneurship as being based around a set of lifestyle positions that exist alongside an industry perspective that highlights business reciprocity and quality of life. The authors claim that many small tourism rms are selecting a combination of these value positions in order to preserve both their quality of life in their socioenvironmental contexts and their niche market positions (Ateljevic & Doorne, 2000, p 388).

Method

The research project that this paper reports on was based on a number of research objectives. These included understanding what the key transitions are that New Zealand rms encounter as they attempt to grow, and how these experiences relate to the stage models of business growth. Given the aims of the research, which could best be achieved by the collection of rich data via in-depth interview and site visits, the research team designed a qualitative methodology (Patton, 1990). However, in recognition of the added credibility often assigned to quantitative methodology in studies of SMEs in New Zealand, it drew on design principles more typically associated with quantitative projects. In practice, this meant the study was based on a sample of 50 rms (a large number for a qualitative project). These were recruited from a random sample of 500 New Zealand rms (sourced from a commercial database) that employed 5-50 full-time staff and that were in the manufacturing or service sector.

All 50 rms were visited by one of the research team and the owners or managers were interviewed and taken through a semi-structured interview schedule (Easterby-Smith, Thorpe & Lowe, 2002). This asked them to identify the key events and/or milestones in the life of the business retrospectively (with some approximate dates and/or some sense of chronology) and describe in some detail their objectives for the rm (e.g. growth, consolidation, contraction). They were then asked to represent these events diagrammatically, and guided by the researcher, were helped to identify any obvious developmental phases , and any points of transition , i.e. whether any of the events marked an obvious point at which the rm made a fundamental shift between one phase and another.

Each interview lasted between 45-90 minutes and was tape-recorded. Informed consent was gained via the provision of a project information sheet and subsequent completion of a written consent form (Collis & Hussey, 2003). Data were analysed using content analysis (Weber, 1985) and the process was guided by the use of Easterby-Smith, Thorpe and Lowe s (2002) seven stages of data analysis (familiarisation, re ection, conceptualisation, cataloguing concepts, recoding, linking and re-evaluation). Meanings from the data were drawn out by the identi cation of theme and looking for what Patton (1990) calls recurring regularities. These could be either recurring phrases in the words of interviewees and/or threads that linked data together. The validity of this qualitative study was monitored using two concepts congruent with its epistemological underpinnings: credibility and dependability (Guba & Lincoln, 1983). The former through member checks from participants via copies of their transcripts, and the latter through the use of research protocols, emergent questioning styles, and the pursuit of thick description.

Results and Discussion

Of the 50 interviews carried out only five of the interviewees were women. Most were New Zealand European, but four were immigrants. In terms of the firms the owners represented, age varied from a start-up year of 1900 through to start-up in 2003. Of the 50 firms, all but two were limited liability companies and 28 were described by the interviewee as being a family business. Despite the sample selection criteria specifying firms with 5-50 full-time employees, the actual employing power of the sampled firms ranged from sole trader to 63 full-time employees. With regard to size of firm by turnover, the sample ranged from $130,000 to $13,000,000. The firms were diversely located geographically; from Whangarei in the north to Invercargill in the south.

The findings from the interviews were analysed extensively and arranged around five primary themes: the impact of personal events on the business (death, divorce and disease); employing others as a critical and difficult transition; government as a 'necessary evil' within the business environment; ambivalent attitudes towards growth; and the story of the lifestyle business. The last two themes are reported on in this article, the others have been reported elsewhere including Massey, Harris, Tweed, Warriner and Lewis (2003).

When discussing growth intentions, many interviewees articulated a desire to grow, but within certain limits. Half of the 50 interviewees specifically referred to their lifestyle when asked to discuss their intentions in terms of firm growth. Typically the limits to growth were discussed in the context of maintaining a certain lifestyle or set of family oriented routines:

Owner 16: *"Two minutes and up the hill to have lunch. Two minutes back again. I don't waste any time commuting…I work nine to five and then I put the business away at five o'clock."*

Owner 42: *"For me and my husband….we've got the same sort of objective…and that is for the company to be of a size where it's still small but of a size where it can sustain itself without my husband and I here for short periods of time…and for me so it can sustain itself with me only being two part days so I can look after our small children."*

For others, growth was capped to achieve personal objectives pertaining to lifestyle that were not directly related to family:

Owner 21: *"…we've slimmed it back a bit just to get some lifestyle back because it was just out of hand."*

Owner 43: *"Overall it's a pretty laid back life which is another one of our objectives…we travel a lot."*

Reasons such as these align with Marcketti, Niehm and Fuloria's (2006) assertion that entrepreneurs who are keenly aware of the fit of the firm with their life are more likely to attain 'life quality' that is more satisfying for them.

Some business owners also elected to deliberately cap growth in order to reduce the amount of work capacity in the firm (despite the negative impact on profit) and thereby influence the quality of the time they were at work, and ensure that the returns for that time were realistic:

Owner 4: *"I enjoy what I do. And I've got to the stage in my life where I only do what I enjoy…we make a reasonable amount of money and I'm as happy as Larry."*

Owner 26: *"…a lot of people they try and work 18 hour days…but our philosophy is you've got to have a life outside of the business…having a business banking background we saw so often people were working all those hours…and their return at the end of the year wasn't equating to even a realistic wage."*

The 'bigger picture' was also a driver behind the intentions of some owners with regard to the balance between lifestyle and business growth:

Owner 25: *"As you get older, you know you don't need the $150,000 or whatever, because time is more important. I've seen too many guys my age die…. It's really sobering."*

Owner 47: *"I don't foresee any benefits in being wealthy unless you can be worth millions and I don't ever see that happening so I'd rather have a lifestyle now."*

Owner 8: *"…there are things that I need to do before I grow old which I always wanted to do and I have the ability to do it now…I'm young enough to do it so I realise that work is not the only thing we're meant to do on this earth."*

Other interviewees offered responses that clearly illustrated the tensions created by the paradox of freedom that self-employment can represent (i.e. the ability to choose how and when you work but having to work harder when you do):

Owner 26: *"…a lot of people say if you run your own business…you shouldn't let the business run you…you've got to have interest outside of work…but the phrase you've got to have your own lifestyle, it just doesn't sit with me. Lifestyle is perhaps not it – you've got to run your own life without the business running you."*

Owner 39: *"I mean I got into this business purely for lifestyle reasons, I naively thought that getting involved in the surf industry would give me more time to go surfing and now it's less time surfing and more time working."*

Many of the interviewees told stories that reflected the long hours they invested in their businesses. This is a well-established fact in the small business literature, but what is not captured is the awareness owners have of the impact of such an investment. In the era of work that is characterised by the discourse around work-life balance and family friendly work practices it is perhaps unsurprising that it is so. However, what is surprising is that the awareness on the part of the interviewees was not limited to those involved in what once would have been called lifestyle businesses (i.e. those that are small, with low or nil growth). Instead, awareness was demonstrated in what could be called stable or flying businesses, with the result being the owner-managers were not tolerating growth for the sake of profit and instead rejecting it for the sake of lifestyle. This is perhaps not surprising given the diversity of measures of success used by small business owner-managers to judge their performance i.e., not only those of a financial nature (Cassar, 2007) and the subjective nature of many of those measures (Haber & Reichel, 2005; Reijonen, 2008).

For some interviewees the choice to invest large potions of time into their business reflected the centrality of the firm to both their personal and work lives. This interconnectedness between personal and business identity is congruent with the high number of family businesses within the sample. But, it also reflects the acceptance by non-family businesses that the role of a business unit does not have to be incongruent with family or life values. This seems part of a growing trend that sees business paradigms accommodating sociological constructs (for example, entrepreneurship based around the marital unit and thus described as copreneurship). Indeed, for many of the owners in this project it was a choice to devote such large amounts of time rather than a necessity, and in some instances the firm was often described as a substitute for absent social ties or a distraction in response to a personal crisis.

The results of this project show that the dualism of growth or no growth (which the phenomenon is often reduced to in the context of SMEs) is an overly simplistic interpretation in the context of this group of SME owner-managers. Though half of the interviewees did articulate a desire for what could be described as limited growth (characteristic of lifestyle businesses), many merely chose not to inflict the consequences of growth on their firm or lifestyle (i.e., it was not a choice not to grow per se, but rather not to suffer the perceived consequences).

This finding represents a number of things in terms of the SME sector in New Zealand. First, it signals that large numbers of New Zealand SMEs will never reach the levels of size, or use the types of growth strategies, projected in stages of development models in the literature. More importantly, this will occur not because of any failings on the part of policy makers or practitioners or due to a lack of intervention. Rather, it will occur as a result of the choices of the owner-managers that comprise the sector. However, what these choices represent is an interesting conundrum for current assistance policy-makers, especially in relation to the growing numbers of initiatives that are targeted at what are perceived to be firms capable of high growth. The assumption behind these initiatives is that firms capable of high growth will want high growth. In reality, the findings of this project have shown that the gap between capability for growth and desire for growth seems large, and indeed may be growing faster than the firms themselves.

Lifestyle has gone beyond being a descriptor for those businesses that adopt a low or nil growth strategy for the sake of non-economic objectives. Instead it embodies the growing group of owners who have what could be called a holistic appreciation of being in business. They choose to live their lives, in their style, 'through' their business rather than for or because of the business. These firms can be a means of 'expression' of people, families, their lives and their personal styles. This is a significant finding as it helps to dispel much of the rhetoric surrounding the characteristics of the 'lifestyle entrepreneur'. The concept of the lifestyle owner-manager is far broader than long holidays and afternoons for golf. It is not necessarily about spending less time in the business or not growing. It seems that the term lifestyle business has become outmoded by experience. It was founded in stereotypes of the types of firms that either grow or don't grow.

Instead, it is time for a new type of owner to emerge – the 'freestyle' owner. For them it is not about less time in the business but more time on the business. Not about afternoons off for golf, but about opportunities for spontaneity. Not about retirement, but about quality of work time, and how to condense work into different patterns with different people – family and non-family. It is about reframing work in SMEs, capturing the fact that SME owners don't just work their businesses, they often live them too.

Conclusions

The results of this project have shown that the way SMEs in New Zealand grow and develop is influenced by the attitude to growth held by the owner or manager. Research should continue to examine the different drivers and dimensions of small firm growth and recognise that there needs to be a focus on the person that equals or supersedes the focus on the firm.

Growth in SMEs should also not be confused with development or progress. For some SME owner-managers, those with a close eye on their lifestyle in particular, growth is not something to be pursued at any cost. This indicates that the dualisms often used to characterise the sector (e.g. 'growth' or 'no growth' firms) are not always truly reflective of the situations SME owners find themselves in. For example, while the label lifestyle business reflects a no- or low-growth outlook, the new term of 'freestyle' owner put forward in this article captures the fact that those firms may be prepared to grow, and well might, but typically only after considering the personal implications rather than just the business ones. The fact that owners frequently pursue a number of diverse and often mutually exclusive goals inevitably results in the need to trade off specific objectives. However, what the term 'freestyle' is designed to reflect is a new situation that sees the lifestyle not as something to be accommodated by the business, but instead, lifestyle (or the freedom to live life in a particular style – 'freestyle') is conditioning the business operations of SME owners in New Zealand in new ways.

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