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Microbusiness owner-manager mindsets and the issue of growth

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Abstract:

While there is much research on SME growth, there is limited evidence on growth issues facing microbusinesses. Large-scale surveys in the UK show that obstacles to growth, and their effects, vary by size-band. We argue that a more detailed and nuanced analysis is needed to achieve an explanatory model capable of informing business development and policies to assist micro business growth. The paper's focus is on the motivations and mindsets of owner-managers of very small businesses, rather than upon the businesses themselves. It explores the notion that microbusiness owners conceptualise various 'barriers to growth' differently to owners of larger firm: the former exaggerate their effects compared to owners of larger businesses, whose perceptions and mindsets have been affected as a result of their practical experience of growth. The paper uses a critical realist framework to analyse findings from focus groups and interviews with micro business owners and one-person businesses.

Keywords: Growth, Employment, microbusiness, policy, behaviour, psychology.

INTRODUCTION

While research on SME growth is voluminous, evidence specifically on growth issues facing the very large number of microbusinesses (with fewer than 5 employees) or sole traders lacking employees (‘one person businesses’ or OPBs) is relatively scarce. Large-scale surveys in the UK (e.g. BIS’s Small Business Survey, English Business Survey and Business Perceptions Survey) suggest that perceived obstacles to the achievement of growth, and their impact on firms, vary by size-band. This implies that more detailed and nuanced analysis would be helpful in developing a more powerful explanatory model, which can inform policies to support micro business growth.

In particular, this research focuses on the motivations and mindsets of the owner-managers of very small businesses. It brings the *owners* to the fore, rather than concentrating on *business* characteristics, as is the case with much research. The rationale for this is that it is possible that micro owners conceptualise barriers in a different way, and exaggerate their effects to a greater degree, than owners of larger businesses, whose perceptions and mindsets have been changed through their practical experience of growth. This paper uses a critical realist model to analyse the findings from a series of focus groups with micro business owners and one person businesses.

LITERATURE REVIEW

Small firm growth research is predominantly functionalist or positivist – ‘explaining’ growth through regressions using a relatively small range of variables, most often related to the characteristics of the business, the owner and/or the external environment (Grant and Perren, 2002; Parry, 2010b). Gilbert et al. (2006) note that many studies largely ignore how growth occurs (i.e. internal processes interacting with the external environment). Kelliher and Reinl (2009) find that microbusinesses are ‘intrinsically different in their organisational characteristics and approach to business problems’ rendering ‘theories derived from studies of larger businesses inappropriate’ (p522). This is particularly important in relation to behavioural responses to problems (Kelliher and Henderson, 2006; Whaley, 2003); the survival and growth of microbusinesses are acutely dependent on responding appropriately to external conditions - over which they have little or no control (Alstrup 2000). The external environment may actually be more effective at triggering change (and growth) than internal dynamics and expertise; although this requires that signals and information are correctly detected, processed and responded to, and ultimately incorporated into strategy (Kelliher, 2007) through learning at a more rapid rate than the environmental rate of change (Kelliher and Reinl, 2009). Thus, growth in a micro business or OPB requires not only being able to correctly spot a growth opportunity, which matches internal capability and capacity (requiring a high degree of self-knowledge and the ability to take stock), but also the skills and knowledge to accurately process the requirements, and to be able to identify and access the external factors allowing growth to be realised (e.g. access to finance).

In a microbusiness (used here as a business having fewer than 10 employees), these factors are usually embodied in the owner-manager, and the business is thus dependent upon not only their skills, but their mindset and outlook, with little if any input from managers, employees or external owners (Simpson, 2001; Greenbank, 2000). Employees are usually generalists rather than specialists (Simpson, 2001; Pittaway and Thedham, 2005); delegating important issues may be seen as a threat to the owner-manager’s control (Parry, 2010a). Indeed, owners may believe any change taking them away from operational activity (e.g. a greater managerial role in a larger business) would impact negatively on profitability, considering business success to be dependent upon their personal touch. Growing businesses are more liable to recognise the input and value of others, including staff and external sources, and thus more likely to have their perceptions challenged (Allinson et al., 2006).

Given that time is a valuable resource, data processing is often a combination of informally absorbed information, heuristics and other short-cut methods, within an intuitively based approach to decision-making (Greenbank, 2000). Lack of power over the external environment can serve to exacerbate sensitivity to market changes, contributing further to short-term planning and a reactive approach, rather than a long-term strategic vision (Whaley, 2003). Planning and strategy formation can be thought to be 'beyond them', with owners preferring to operate to short time horizons, without formal planning. Growth is conceptualised as increasing profits and margins, rather than output, employment and assets. This results from negative views about the consequences of an increase in size, and (to a lesser extent) the dynamic processes of achieving growth – viewed as involving excessive risk. Many businesses have simply not explored the consequences of growth in any depth, because of the strength of these negative perceptions and the privileging of owners' beliefs over other sources (Allinson et al., 2006).

This line of argument implies that developing an understanding of growth issues in micro businesses requires the examination of psychological, social and emotional perspectives. However, despite recent interest (see for instance Parry, 2010b; Doern, 2009; Doern and Goss, 2012), this approach remains under-represented in the literature. Psychological research has tended to concentrate on the traits and circumstances associated with start-up (Korunka et al. 2011), in particular, reiterating that the identity of the business is essentially that of the entrepreneur, entangling business and personal objectives and preferences. This leads to a biographical embeddedness, such that decisions about growth, among other things, can only be interpreted and understood in the context of the particular life circumstances of the entrepreneur (Korunka et al. 2011). Therefore, analysing the conditions for growth in a one-person start-up is inherently difficult, since they are unique and personal to that business, and many of the most studied traits (e.g. internal locus of control, a need for achievement and risk propensity) are good predictors of self-selection into entrepreneurship, rather than of growth. Those who are pushed into start-up as a necessity may well be less likely to grow their business (e.g Acs et al., 2009; Hurst and Pugsley, 2011; Davis et al., 2007; Désiage, 2010), but the psychological factors which discriminate between growing and non-growing opportunity entrepreneurs are not clear.

Thus, while ambition for growth influences strategy, management practice and outcomes, the mindset (motivations, values, attitudes etc.) and abilities of a micro business owner-manager may determine ambition for growth in the first place and therefore also the growth trajectory of the business. This is especially so, given the dominance of their role and control over the business (Kelliher and Reinl, 2009; Greenbank, 2000), with objectives often personal and tacit, rather than explicitly expressed as business goals (Simpson, 2001; Phillipson et al. 2004).

This raises the notion of a growth-constraining 'habitus' (Bourdieu, 1977) amongst a proportion of micro business owners. Haitus can be seen as a 'matrix of perceptions, appreciations, and actions' (Van House and Sutton, 1996) formed by common experiences and activities. Habitus is determined by individual and social dispositions, which shape - and are shaped by – current events, beliefs and structures, so that it is unconsciously formed 'without any deliberate pursuit of coherence… without any conscious concentration' (Bourdieu, 1984 p170). This imparts a perception (by owners themselves and by others) of rationality and intentionality to behaviour that in reality is less than fully conscious or self aware, being influenced by a wide variety of factors. Thus, action guided by habitus has the appearance of rationality but is based 'not so much on reason as on socially-constituted dispositions' (Van House and Sutton, 1996, p140). The habitus of non-growers may contribute to a predisposition to remain small, but expressed by owner/managers in terms of 'rational' concepts: limited access to finance, fewer economies of scale, lack of support, limited demand etc. This may lead to the suboptimal identification and processing of information and self-fulfilling justifications of why they need to remain small, and a failure to acknowledge or consider arguments to the contrary. In order to facilitate growth amongst this group, this habitus would need to be shifted, so that owner/managers become alert to the belief system they are perpetuating and the limitations it imposes.

Critical realism

This formation of beliefs can be analysed through the use of critical realism. This perspective recognises that what is observed in only one element of the social world, and that a more nuanced analysis is necessary in order to examine cause and effect, including the beliefs held by the various actors involved. As such, critical realism analyses the social world through three layers: (i) the 'real' – i.e. the knowledge, beliefs and social structures which, ultimately, are the causal agents for the observed events; (ii) the 'actual' - the 'real' mechanisms and structures give rise to particular events i.e. this is how 'real' structures and beliefs are interpreted in practice by the actors involved; and (iii) the 'empirical' – these are the events and experiences which can be directly observed as taking place (Bhaskar, 1978).

The 'real', in this case, is the tacit beliefs of the owner-manager about a variety of factors related to growth (e.g. beliefs about regulation, management burden, type of work preferred, what 'growth' means etc). The 'actual' is the influence those beliefs have on the way in which he or she chooses to manage the business and, specifically, the degree to which the choices made in managing result in actions aligned with growth. The 'empirical' consist of those actions i.e. how the owner-manager chooses to put into practice his or her beliefs.

Parry (2010b) provides a good example of this, using discourse analysis to identify barriers to growth based on the 'stories' that owner-managers construct about their businesses. Three themes emerge from this analysis: a distinction between 'management' and 'hands-on' work; internal control requirements; and externally imposed business regulations. All these factors are related to control; this is framed as so important that if the business were to be expanded, the capacity for the owner-manager to exert effective control would suffer. In other words, this is the most important real factor, even if the owner-manager is unaware of this, and it leads to the businesses being managed in such a way that they are 'successful' (according to how the owner-managers define success), but that growth is largely avoided – i.e. the empirical actions taken in the business are not aligned with business growth.

The owners often draw upon 'both a business perspective (there are good business reasons for not growing) and a personal perspective (there are good personal reasons for not growing)' (Parry, 2010b, p387). This conflates two different perspectives to create a form of 'microbusiness mindset', where the owner-manager either cannot picture the business as larger, or sees it as transforming the business beyond recognition: a situation an owner may be unwilling to countenance, as their self-identity is bound up with the business's identity. This implies in turn that responses to research questions about 'conventional' barriers (poor access to finance, lack of demand in the economy) may lack reliability, since owners seek justification for their small business size and the choice not to pursue growth. The owners express this in a 'rational' way, as they may be unaware of their true desire (to stay small) or it may be socially unacceptable to express this (e.g. businesses – and by extension, the owners - are defined as successful by growth) (Parry, 2010a). Hence, we need to examine more closely the meaning of growth to owner managers (Doern, 2009). Microbusinesses may be particularly susceptible to focusing on negative aspects of their present size and lack the capacity necessary to explore alternatives (i.e. only considering duplication of their existing practice as the driver of growth). Many seem unable to accept or conceive that there could be benefits from growth (Allinson et al., 2006) – this real set of beliefs leads to attitudes and actions which restrict growth. Indeed, 'business success' may even be redefined by the owner as not growing, either in employment or turnover terms. This can be conceptualised as the micro business owner not running a business but being in business i.e. the owner him/herself is the business (Parry, 2010a). There is thus often a desire to remain within a 'comfort zone', to avoid exposure to additional, higher costs. For example, many owner/managers studied in Allinson et al. (2006) wished to stay small to avoid costs of regulation, but had nebulous conceptions of how and how much they would actually be affected – again, an example of how a desire to remain small may be expressed in business-based terms, despite a lack of research and hard data informing that opinion.

METHOD

In order to analyse the beliefs of microbusiness owners, eight focus groups were held around England, each with 8-10 participants (all business owners) – a total of 66 participants. Three groups consisted of owners of businesses with 1-9 employees. Three groups consisted of businesses without employees. The remaining two groups comprised owners of businesses with 10-19 employees, reflecting on obstacles to growth they faced when smaller, and how they overcame them. Groups were mixed with respect to age of establishment, sector, location, and characteristics of owners in order to gain a cross-section of responses and identify issues that are common across a range of business types. Groups were recorded and transcribed for analysis.

Groups explored owners' views on growth: how they conceptualise growth and perceived barriers; the consequences of growth for their business; personal circumstances; and evidence of mindsets that may restrict potential business growth. Given that growth is often seen as the mark of a 'successful' business, questioning non-growers on this topic may lead to defensiveness and the construction of a justification for a lack of growth. This can be analysed for misperceptions and deliberate or unconscious interpretations of the reality of business ownership and growth (Parry, 2010a). These beliefs (and, by extension, the actions which derive from them) can be contrasted with the actuality.

Analysis concentrated on statements made by the micro business owners and self-employed about growth, whether made explicitly (e.g. 'I can't grow the business because...') or tacitly, referring to issues such as access to finance, management abilities etc. These statements were then thematically grouped. These were then contrasted with: (i) the facts of the situation, where owners expressed opinions which could be confirmed or contradicted (and/or where the basic gist of the owner's argument was correct, but they had exaggerated or underplayed certain aspects); and/or (ii) evidence gleaned from the larger businesses.

In particular, analysis sought to identify assertions which were presented as rational reasons for not growing, which appealed to economic or business logic, but which were more likely to be rationalisations for remaining small (i.e. the owner was tacitly expressing reasons for not growing derived from their habitus, and expressions of a desire not to grow, but 'disguised' under a more explicit appeal to rational behaviour). This allows for identification of areas where the gap between the expressed opinions (the 'actual' domain) and reality is largest i.e. where the real beliefs of the owner-manager are divergent from the actual situation, leading potentially to sub-optimal actions.

It is worth noting that it is possible for businesses to not wish to grow for entirely rational reasons i.e. there is a relatively small gap between their real beliefs and actuality. This is not what the research sought to analyse. Rather, it is an exploratory study of the sort of rationalisations that would impede the growth of a business that could otherwise achieve it, if the views governed by their habitus were 'modified' somehow (for example, using behavioural techniques). The point was not to persuade an owner to pursue growth when they would rather not, but to uncover systematic beliefs and biases that may prevent owners pursuing a growth strategy, when they otherwise have the potential and inclination to do so.

FINDINGS

These findings do not apply to all microbusinesses, but a subset of that group where the owners do not desire growth due to their particular habitus. They are also not an absolute barrier to growth: the results from the focus groups of larger businesses imply that the factors restraining the desire for growth can be overcome, albeit often in a less than desirable fashion (e.g. reaching a crisis point in the company).

The findings apply to owners who devise rationalisations which could be overcome if the owner obtained the right information or processed the correct information in a more joined-up, strategic and analytic way – i.e. if the owner fully understood their and their business's capabilities and capacities, they would not be subject to these misperceptions. This narrows the gap between real beliefs and actuality, which may lead to changes in actual beliefs, and in turn to changes in empirically observable actions.

Two overarching, and inter-related, themes were identified from analysis of the focus group transcripts:

(1) The difficulty, risk and resources required to recruit extra employees that meet the perceived needs of the business, and the implied loss of control this would entail.
(2) The lack of control over external conditions, and the inability of the business owner to devise ways in which these external influences may be ameliorated or mitigated, or even harnessed to the business's advantage. In other words, the way the business operates is simple and set in stone, and it is difficult for the owner to envisage how they can grow with these obstacles facing them, rather than how growing may help to make the situation better.

These themes imply that, if microbusiness owners have aspects of habitus in common, the threads which tie these together are factors relating to control and responsibility (the real), which leads to a reluctance among many owners to work on the business (the actual) with a preference for working in the business (hands-on work as opposed to managerial duties – the empirical). This in turn means that, although they have the latent capacity and capabilities to grow, this potential is not realised, with owners being held back to a particular conception of what their business looks like and its operation, which precludes the pursuit of growth (in employment and sales terms).

Internal issues

Dealing initially with beliefs about expanding the workforce of the business, there were two sub-themes of misperceptions:

(a) It was difficult to find the right person to employ and the owner lacked the time to look for them. Many owners felt they 'had to do it all themselves' and could not afford the opportunity cost of planning and business development, feeling that they were already overwhelmed simply by doing business on a day-today basis. In addition, the conception of how a recruit could add value was often limited to simply replicating the current employment set-up – i.e. the new employee does 'more of the same' rather than performing a more differentiated role, such that business operations are merely replicated as the business grows, rather than adapting to a new situation and changing business practices, which requires strategic foresight and analytic knowledge of both the business and market conditions. Furthermore, the owner had established the business and implicitly understood it better than anyone else, with many believing that it was their special knowledge or skills, or their trust relationship with clients, which had led to success. Given that – in the conceptualisation of expansion outlined above – recruits would essentially be duplicating the role of the owner, new employees were inevitably believed to be not as competent, committed or as trustworthy as the owner, leading to a risk of a downturn in profits and potentially business failure. New employees could even be seen as a net drain. In the short term, this is likely to be true, but many owners had not planned into the medium or longer term and considered how recruitment could improve operations and profitability.

We could grow but we'd need more staff … at the minute we are kind of stuck. We are so busy working in the business, that we haven't got a lot of time to work on the business. (PR consultancy, High Wycombe) 1

I'm really busy. I've wanted to expand but am always wondering who you're going to get, who'll do the work like I do? The buck stops with me, I'm afraid others wouldn't get it right. (Book-keeper, High Wycombe)

Clients want to talk to me [and won't] see anybody else. (Accountant, Stoke)

You can't find people who will work as hard and diligently as me and not cost a fortune. I don't want to take the risk. I turn work away rather than employ someone who'll let me down. (Events manager, Watford)

[1] Unless noted otherwise, all quotations are from owners of businesses with fewer than ten employees. Where a larger business is quoted, this will be indicated.

Larger businesses noted that they had often deferred recruiting or delegating until a crisis point was reached – an action stemming from a preference to remain small, but leading to hasty, sub-optimal changes compared to those that would result from strategic planning. Hence, it is clear that the real beliefs of microbusiness owners can lead to attitudes which cause them to be 'stuck' in a particular way of thinking until this is changed by an external or internal shock – i.e. until they are confronted with the results of their lack of vision about the business, and the gap between their real beliefs and actuality becomes more overt.

Looking back with hindsight, owners realised that the way in which their beliefs led to actions had held the business back. They regretted not placing more trust in their employees and not seeing earlier the potential for differentiated staff roles. Examples given include: (i) recruitment for 'lower order' or very specific tasks; (ii) recruitment of part-time employees; (iii) outsourcing of tasks; and (iv) recruiting to inject 'new blood'. The owner's conception that only they can run the business may need to be challenged - i.e. 'letting go' may be good for the business - or that they need to pursue a strategic vision to find other solutions to being time-poor (e.g. more effective ICT usage or marketing online).

You get to a stage where you don't understand how a sole businessman can run and be a business owner, and do everything on their own effectively. (Media group, Leeds, 15 employees)

[The time you delegate] is when you can't remember your kids' names. (Office supplies, Leeds, 16 employees)

I was chief cook and bottle washer – now I've got good staff, I trust them massively and they trust me, so I will [delegate], definitely, so I can do what I'm better at. (Printer, Leeds, 10 employees)

(b) Taking on employees was too complex, costly and risky.
Costs were often cited as a reason not to recruit. In particular, the cost of setting up an employment 'infrastructure' was cited, encompassing moving into (larger) premises and buying equipment; setting up a payroll and (very frequently mentioned) the indirect resource implications of regulation.

I'd have to move somewhere more professional... proper premises, that means much bigger overheads. (PR consultancy, High Wycombe)

It was often assumed that time spent researching and complying with the perceived complexity of regulation increases disproportionately as microbusinesses expand. Many participants were resigned (or actively hostile) to dealing with this increased cost and considered the burden heavier on micro than larger businesses. The key difficulty was felt to be that the burden of compliance fell entirely on the owner; that they would not be able to delegate any of this as employment if the micro grew (unless it grew very substantially); and that growth would lead to a disproportionate increase in the time and effort expended on the regulatory burden. To an extent, this is accurate (Better Regulation Executive, 2010).

However, more important is that this belief has grown into a barrier that prevents the owner pursuing a growth strategy – in other words, the extent of the burden has been exaggerated, due to fear, suspicion and uncertainty about the precise effect. This has led to a belief that growth in employment is costly above a certain threshold, and that this threshold should not be passed. This leads to, at best, constrained growth.

The belief was at least partly explained by ignorance of the regulations, with few participants citing specific examples of regulations, as opposed to generic catch-all areas, such as 'health and safety'. This is this a misperception grounded in reality, but exaggerated as a result of outside influences (e.g. the media and other owners), and the perceived difficulty of finding out which regulations apply at which point. Such factors feed into the owner's habitus to reinforce a desire to remain small.

We absolutely keep below [five employees]... when I started, my requirements were enormous for Health & Safety... the same as for a larger business. It's a very heavy load, which is easily absorbed in a massive corporation... we have to do it ourselves, and it's hard. (Off licence, Guildford)

You take on x number of employees and you have to do certain things... you've now got to have a first aider in, if you've got more than five you've got to have two qualified to cover for holidays, you've got to think about health and safety regulations. As you get bigger the legislation gets more, you fall into the next category and the next, which puts more rules and regulations around your business. (Gift shop, Watford)

I know someone - she's taken on lots of people, her business is bigger than mine but she takes hardly anything out of it and it runs her. I just don't want to be in that position: I'd rather scale back the work. (Events promoter, Watford)

Owners generally thus gave more consideration (and higher priority) to costs while downplaying the potential higher income in the longer term. Longer term (potential) costs were also given more prominence than the possibility of gains: for example, the unrecoverability of sunk costs e.g. of equipment; recruits leaving and taking business with them; or (most commonly) the potential costs of redundancy pay and tribunals; and the burden of implementing correct employment procedures.

The cost, likelihood and negative consequences of a tribunal were also exaggerated, with payouts typically being mentioned as being in the 'tens of thousands'. MoJ figures show that 40% of employee claims were dismissed before a hearing, and only 12% of all claims were ultimately successful at a hearing, with a median award of £4,560.

[You're not doubling in size when you take on an employee] you're halving the size of your business, when you take into account wages and everything else – you have to double your income: first, you generate the business, then take on the employee. (Electrical repair, Stoke)

There's a lot of business I could have, but I wouldn't take someone on because with sick pay, maternity pay, everything like that, I could suddenly end up in trouble (Accountant, Stoke)

[To recruit] you have to have vastly more work... the thought of taking someone on horrifies me - if the market shrinks you're stuck with offices, staff etc. I've seen people who've grown and then are stuck with the costs. (Online learning provider, Watford)

In some cases, owners considered that taking on a large number of staff in one go would be cost effective, but that this would not be practicable. Thus, again, owners fail to visualise how a business may change as it grows in the longer term, prioritising short-term activity over more strategic development, It had also proven difficult to discover information on regulation, leading to an exaggeration of the possible burdens. However, it was clear that most had not researched this issue in depth - and none displayed evidence of using, for example, tools to guide them through the regulations they were required to comply with, nor of researching their rights as employers in areas of maternity pay, sick leave, redundancy etc. (under, for example, the Employers Charter). Owners express a strong desire to comply where required (Better Regulation Executive, 2010). However, their capacity to inform themselves about both existing and – more particularly – new or changed regulation, and their skills and knowledge to interpret it for their own particular situation, are limited. This leads to real misperceptions, with (potentially) over-compliance with regulations being the empirically observed result.

External environment

As well as actual beliefs about the internal capability and capacity of business, the real preference for remaining small can lead to actual beliefs about the market environment outside the business, which also lead to actions designed so that the business will remain small. In particular, owners expressed a perception that they were negatively affected by external factors, and could do little, if anything, to improve their situation. Again, real beliefs led to a situation where the available options were perceived to be limited, with certain avenues that may have led to growth being regarded as not feasible.

In terms of the external environment, there are two sub-themes:

(a) The market is too limited
Comments about external conditions often focused on the prevailing market conditions – in the sector, the locality and/or in current economic circumstances (the research took place in 2012, i.e. roughly four years after the start of the recession).

Here, the real beliefs about remaining small (i.e. about the business) were intertwined with owners' beliefs about the economy and conditions in the market – which contained a degree of truth, to a greater or lesser extent. This often led to actual actions that were a result of exaggerating the degree to which the market was not amenable to growth, leading to empirical actions that restricted the capacity for growth. As such, owners tended to overestimate how limited the market was, and – more importantly – the actions they could take in order to grow in those market circumstances.

Fundamentally, there was a failure to modify their business practices, strategy and operation in order to gain advantage. For example, it was often the case that investment or recruitment plans were described as 'deferred'. Following the argument outlined above, this is a rationalisation of the desire to remain small, articulating this desire in 'businesslike' terms, rather than directly stating the desire. Hence, the real belief is transformed into an actual belief, which has consequent impacts on empirical actions.

It is in the nature of this argument that the expressed 'actual' reason for deferring investment and growth will change as circumstances change – i.e. owners pick the most plausible and rational reason for the lack of growth, which changes over time. Examples of the views expressed about the market, and the owner's inability to make any forward progress included the following:

I'm just working harder. People are not having as many big weddings, they're cutting back – and cutting us out. (Wedding organiser)

Here, the business owner's real desires lead to a reluctance to diversify i.e. their main market is experiencing a downturn, but the only route considered is for them to work harder, rather than alter the business strategy – for example, into other functions, themed weddings etc, altering their marketing, or teaming up with providers of related services. The owner preferred to stick to the same strategy and hope that market conditions improved, whereas those that had taken a risk and diversified had often benefited:

Being a sole trader has been a benefit: firms are looking at their budgets, asking if they need to spend £3-4K per month on a big firm. So it's providing opportunities – get in a freelancer, who'll come into our business, understand us, become part of the team. (PR consultant, High Wycombe)

I've diversified the company in little pockets where there's a profitable area rather than compete in business cards; look at different areas where you can make money. (Printer, Leeds, 12 employees)

A similar reluctance to change strategy or target other markets is illustrated by the following quote, which puts the blame on the local market as opposed to the downturn more generally, as the reason for longer-term under-performance:

Here, everyone wants something for ten bob. If they're outside the area, if you ask for £135, they pay £135 – if you told [someone from here] it was £135, they'd want to know where the airport was and have the cases packed for two weeks holidays. (Electrical repair, Stoke)

This theme was most obvious in suggestions that an online presence was not needed, or that only an expensive website would be useful. These are clear rationalisations for keeping the business small and simple, rather than aiming to circumvent local market conditions, promote the business more widely (e.g. through social media, where online retail was not feasible) and pursue growth ambitions. Many other owners noted that, nowadays, it was essential and not difficult to pursue online strategies, highlighting the rationalisations that could be involved here.

Another example of rationalisations was 'unfair' competition faced by the owners. Typically, the owners presented themselves as close to a paragon, following the rules (taxes, product safety, regulations etc.). This meant that they were unable to compete with online sellers, 'fly-by-night' or 'illegal' businesses and large tax-avoiding corporations (the latter issue being highly topical at the time of the focus groups):

Such firms don't give a damn - their product looks the same, but undercuts you, even though it burns the house down. That's a sale you can't make - by you doing it right, it'll be dearer, but it'll do the job better. People have stopped shopping on quality and are now so price-driven. (Asset management, Leeds, 18 employees)

However, as a lettings agent pointed out – 'that's business; it's always been like that... The market should judge, as it has done for many years – good plumbers survive, bad ones fall by the wayside - that's the way it has always been'. The clear implication is that there will always be a scapegoat, which small businesses can use to blame for their lack of growth and as an excuse not to invest or grow, but that the precise nature of this scapegoat will be variable, and that competing on quality, customer service or flexibility (which requires insight, research and planning) is a difficult but ultimately rewarding strategy.

Competing on price is pointless: someone will always be cheaper than you, you have to aim higher, you have to adapt and change, it's how you service your customers. (Printer, Leeds, 12 employees)

You try and grow, you initially grab work wherever you can, then you strive to work for a better customer, you deliver a better service, you can charge more money. (Media group, Leeds, 15 employees)

It's our ability to change small things quickly and introduce new things that has been advantageous to us – the flexibility. (Security equipment installer, Leeds, 14 employees)

(b) I can't control my cashflow, so I need finance to grow; but banks won't lend and there are no alternatives

Owners typically prefer to achieve a stable cashflow position before investing for growth. However, many owners with poor or unpredictable cashflow reported that they lacked options to control this or felt a stable position could easily deteriorate. Again, some reporting such positions rejected options such as factoring, which could have improved their cashflow position. That is, their real beliefs about remaining small lead them to frame a position that may lead to growth in such a way that they have no options to address it, or the available options (invoice discounting, diversifying the client base etc.) have negative consequences. For example:

The biggest issue is cashflow - people paying bills on time. Major problem. The worst ones are big organizations; they don't give a monkeys'. (E-tailer, Leeds, 11 employees)

There's a stigma about factoring: oh, they're selling their invoices, they must be going bust – it's always an issue, who wants to give away 10% of their profits? (Media group, Leeds, 15 employees)

One client is a fifth of my work and asked me to tender for more, which means taking on an employee. If he went bust I'm stuck with the staff – even though cashflow is not an issue. All it takes is for one or two clients to struggle - it puts you in trouble as well. (Accountant, Stoke)

A similarly negative set of attitudes was expressed towards banks. This is a good example of how expressed rationalisations can change over time, while the underlying real beliefs of owners to remain small are similar, so that the empirically observed actions are little changed.

Many owners reported that they perceived that banks were unwilling to lend in sufficient quantities, or with amenable terms and conditions, to allow microbusinesses to invest in growth. While there is a kernel of truth in this (terms and conditions have become more strict since the financial crash), some owners were unwilling to even approach banks or prepare a business plan to apply for funds, as they perceive that it is not worth the time and effort; thereby exaggerating the likelihood of being turned down. In Allison et al. (2006), two 'myths' about finance were identified: 'Internal finance is the only option, because external funders want too much control'; and 'I can't use a bank because they only sell me what they want to sell me'. In the current study, this has been widened to the formulation above, with specific negative perceptions reported as hinging on terms and conditions (especially the need for personal guarantees) and over-cautiousness on the part of lenders. However, it was often difficult to disentangle such assertions from a more widespread negative attitude towards investing, as would be expected from the more general discouragement to growth suggested by the critical realist/habitus line of argument. This extended to owners not approaching (nor even finding out about) alternative sources of funds, such as CDFIs, as owners expressed the wish for the business to remain small and simple, using the 'comfortable', known source of High Street Banks.

Where there are people struggling, the banks very quickly withdraw. Even if they're working within a facility but not going over, it's just the fact that they're using an overdraft. When it comes to renew in 12 months time, [the banks] don't want to renew. (Accountant, Stoke)

Banks want everything – your house, your mortgage, charge you extortionate amounts. We naturally hate the banks, they're evil, they're thieves. (Design & print, Manchester, 12 employees)

Now, even sensible business propositions don't go through.... It's a difficult climate, I will stick with the business as it is until someone is prepared to lend money at the right rate on my terms – I don't need to prostitute myself for stupid rates. (Specialist off-licence, Guildford)

However, banks rejecting overdraft requests or imposing harsh terms was not reported to be a universal problem. In particular, owners who approached the bank in good time with a business case including seasonality or unpredictability of income often gained the necessary support. This involves engaging in longer-term planning and cashflow forecasting – i.e. overcoming any desire to remain small and leading to a more effective analysis of the business and its market.

My balance is all over the place: times when I've had a lot, and times when there's not been much. The bank has been fine; there's always something coming in. (Events promoter, Watford)

The desire to remain small extends to some owners underestimating their market power, in particular in terms of the strength of demand and customer loyalty, leading to their not even trying to recover money owing. Some of those who had a greater desire to grow began demanding (part) payment upfront and often found that clients were prepared to meet this demand, as they valued the business and its good track record.

When you ask them for the money, they say, 'don't you want my business anymore?' We said right, those that want to bugger off can bugger off, if you don't pay within 30 days, we'll go to court. We got it all, and didn't lose a client. (Asset management, Leeds, 18 employees)

On our [repeat] accounts, we have the problem of 30 days terms – you think others won't pay upfront, but they will pay if they're asked. (Design & print, Manchester, 12 employees)

CONCLUSIONS AND POLICY IMPLICATIONS

This research suggests that the growth potential of a wide cross-section of microbusinesses is being held back by misperceptions stemming from a habitus which reinforces an unconscious desire on the part of the owners for their business to remain small. In critical realist terms, these are the real beliefs held by the owners, as opposed to how these beliefs are expressed in actuality, which is often a rationalisation of that belief in more 'acceptable' terms – i.e. formulating a plausible business-related reason to remain small. We do not suggest that this is necessarily a conscious process –

instead, as Parry (2010b) suggests, owners 'tell themselves stories' to account for their lack of growth.

This is the domain of the 'actual', which is manifested in the empirical domain by a reluctance to plan, strategise or develop the business. The concepts of working on versus working in the business were recurrent themes that reflected the prioritisation of short-termist hands-on work over more long-term developmental planning.

For some owners, of course, a preference to remain very small is entirely rational, underpinned by analysis of the relevant, correctly perceived variables; here, the real beliefs, actual expressions of beliefs and empirical actions are aligned to lead to an optimal outcome. Others, however, reach a real preference through less well thought through means: poor or incomplete comprehension of relevant information; incorrect or incomplete processing of accurate information; and information/processing affected by unconscious biases or beliefs about the nature of the world which they may not be aware that they hold. This is then expressed in rationalisations about the business and its market and environment, and in actions that lead to the business remaining small, when the owner and workforce have the capability and capacity to grow larger.

The critical realist implies that barriers to growth are as much perceptual as real, for some business owners, in that they may exaggerate or misinterpret the facts of the situation in order to fulfil their desire to remain small. In terms of encouraging business growth, this group not only face 'real' barriers and the problems posed by bounded rationality (which can at least partly alleviated through provision of accurate information and training in basic business techniques such as planning and forecasting) but also barriers stemming from unconscious perceptions. This means that any instrumental attempt to improve – for example – strategy formation could be rejected out of hand, or the effort is simply wasted, as the owner does not apply the lessons learned (applying them either not at all or in an 'incorrect' way which reinforces the biases held). Theories of growth tend to neglect these more psychological barriers – at least in part, because they are inherently hard to measure and act upon. For example, using a resource-based view, the real beliefs of the owner should either be included in the resources drawn upon, or as a factor in how those resources are chosen to be deployed – which, for some owners, will be an under-utilisation of deployment in a sub-optimal way. These owners are not acting in an 'irrational' manner; rather, they are combining resources in a way which maximises their psychological utility, even if they may be unaware of this.

This argument has two main implications for practice. First, obstacles which are self-reported by respondents to surveys may, in fact, be a self-fulfilling prophecy - justifications or excuses which are believed to be true, rather than the product of experience, or of rational and informed analysis of the business and its market position. In other words, while businesses which report facing a greater number of obstacles may well be less likely to grow, working to remove the obstacle may not have any effect on the willingness or likelihood of some businesses to grow. The reported barrier may be a rationalisation of an unconscious desire, and may be replaced by a different formulation of a barrier relating to that obstacle, or an entirely different barrier, as a rationalisation. In other words, the real barrier may be the real beliefs of the owner, as opposed to the actual barrier. For some owners, the removal of the barrier will undoubtedly help, but the overall impact is unlikely to be as great as may be supposed.

This suggests caution should be used in interpreting the results of surveys, and making recommendations based on those results, and that closer examination of the reasons for individual businesses not growing will be useful. Similarly, rather than changing the obstacle, it may be more worthwhile to change the perception of the obstacle by discovering particular misperceptions about that obstacle and disseminating corrective material, albeit in a subtle way. Simply providing the facts or, worse, telling business owners that they are misguided, is unlikely to prompt a change in behaviour. For example, this could involve the use of social media (say, to disseminate examples of role model behaviour), greater use of networking among growth and non-growth businesses, or the development of a specific diagnostic tool. Equally, reinforcement of a message such as 'I am a business' could be accomplished through, say, designation of a business number to all businesses, not just those registered or VAT or with limited company status.

For support practitioners, engaging owners on issues of growth must not only appeal to a business case, but also engage with the owner's outlook: how they see their business and their role in it, including issues of work-life balance and 'lifestyle' measures of success. The pursuit of business growth may necessitate shifting an owner/manager to new 'subject positions', integrating business and personal success measures, rather than viewing them as antithetical. One possible route that could be taken by support agencies is to employ principles derived from behavioural psychology - changing, for example, the norms and standards held by microbusiness owners. Furthermore, even if this did not result in actual growth, it can be argued that challenging the habitus could lead to actions to improve the business more generally (e.g. closer analysis of the business and/or market, and longer-term planning). Changing the focus and perspective of the owner, so that they can devote time to working on the business, rather than in the business, is crucial.

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