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# **Micro-business owner-manager mindsets and the issue of growth**

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## Background

- **Programme** of projects on growth – ‘Myths’ 2006, micro and small businesses, sociology of growth + ESRC bid
- **Theme:** barriers to growth arising out of owners’ mindsets = in addition to ‘real’ barriers, beliefs may restrict growth
- Research on SME growth prolific – but less on growth issues facing smallest (micro) firms (UK: 75% OPBs)
- Obstacles to growth vary by firm-size - particular tendency for micro owners to conceptualise barriers differently to *larger* owners?
- Research focuses upon **the owner** (not broad business characteristics)



## Past research

- Microbusinesses are ‘intrinsically different’ in organisational characteristics and problem-solving approach (use of heuristics etc.)

Kelliher & Reint (2009)

- Skills and knowledge embodied in owner-manager; business dependent on these and mindset/outlook – limited scope for input from staff

Simpson (2001); Greenbank (2000); Parry (2010)

- Negative perceptions of consequences of growth

Allinson *et al* (2006); Parry (2010)

- A growth-constraining ‘habitus’? What does ‘growth’ mean to microbusiness owners?

Bourdieu (1977); Parry (2010); Doern (2009); Doern & Goss (2012)



## *Habitus*

- Describes ways in which social structures and norms are internalised and how that affect practices
- Individual and social dispositions shape - and are shaped by
  - current events, beliefs structures
- Unconsciously formed ‘without any deliberate pursuit of coherence... without any conscious concentration’  
(Bourdieu, 1984)



## Objectives

- ❑ Exploratory study of rationalisations that impede growth of businesses that could otherwise achieve it, but for views governed by their ‘habitus’
- ❑ Accepting that many (most) businesses don’t wish to grow, for rational reasons; aim should *not* be to persuade owners to pursue growth when they would rather not do so
- ❑ Policy question: how might *habitus* of such owners be ‘modified’?



## Method

- ❑ Eight focus groups across England 2012:
  - 3 of SPBs (established for some time)
  - 3 owners of micro-businesses with 1-9 empl.
  - 2 owners of businesses with 10-20 empl.
- ❑ Attitudes contrasted between those with employees (+experience of growth) and those without
- ❑ Allowed identification of changes related to growth, 'tipping points' and constructions/rationalisations used to justify lack of growth



## Critical realism framework

What is observed is only one of three elements of the social world...

1. The **REAL** knowledge, beliefs, social structures (incl. beliefs about regulation, management burden and what 'growth' means) = causal agents of observed events

1. The **ACTUAL** – how these beliefs are interpreted and their influence on how the owner chooses to manage – including actions pertaining to growth

1. The **EMPIRICAL** – events/actions that are **observed**; the results of owner-manager management choices



## Broad findings

- Many owners reluctant to work **on** the business (strategy, planning) vs. working **in** the business (day-to-day work)
- Many have latent capacity/capabilities to grow, but potential not realised
- Owners held back by conceptions of what their business is and how it functions – precludes pursuit of growth (employment, sales)
- Operational practice is established - difficult for owner to envisage how to grow, given obstacles, let alone how growing may actually help
- Many owners devise rationalisations for staying small - could be challenged via acquiring accurate information or processing correct information in a more holistic/strategic way
- If owners fully understood their/their business's capabilities, many would not be subject to these misperceptions



## Findings demonstrated

Exemplify findings via two overarching/interrelated themes:

- 1. Recruitment of (additional) employees**
- 2. Responses to external conditions**



## Theme 1: Taking on employees

### (1.1) Difficulty finding right person to employ and no time to search

- Opportunity cost of planning/business development; overwhelmed by day-to-day demands
- Owner understands business best: special knowledge, skills, trust relationship with clients = the bases of 'success'
- New employee will 'duplicate' owner input, only... 'not as effective'
- Operations merely replicated as business grows, rather than evolving, as might result from strategic foresight on business/market opportunities



### **\*Non-growth micro owners**

*I'm really busy. I've wanted to expand but can I get someone who'll do the work like I do? The buck stops with me; others wouldn't get it right. (Book-keeper)*

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

*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)*

### **\*Owners of growth businesses**

Often deferred recruiting/delegating until crisis point: recognise this is sub-optimal - *'planning would have been better'*

*The time you delegate is when you can't remember the youngster's names. (Wholesale, 16 empl.)*

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



## (1.2) Problems, costs and risks of taking on employees

- ‘Costs’ as a deterrent to recruitment - employment ‘infrastructure’ (larger premises, new equipment, payroll processes, resource implications of regulation – ‘especially H&S’).
- Time spent understanding and complying with regulation increases disproportionately with initial growth; burden all falls on owner.
- ST costs exaggerated - ignorance of regulations and how they relate to the business + outside influences (media, other employers)
- Undue emphasis on LT costs (unrecoverability of sunk costs, potential costs of redundancy/tribunals, employment procedures) **vis-à-vis** LT potential benefits

*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 grow and then be stuck with the costs. (Online learning provider)*

*=>Such factors feed into owner's habitus, reinforcing desire to stay small*



## Theme 2: Uncontrollable external environment

### (2.1) The market is too limited

- Owners exaggerated how restricting the market was - seeing only limited scope for action
- Failure of vision - how to adapt business practices, strategy and operations to gain competitive advantage
- ‘The market’ used as excuse for not planning for future growth; investment or recruitment plans deferred
- Adjusted the stated reason for deferring investment/growth as circumstances evolved
- *‘Online presence not needed’, or ‘only an expensive website would be useful’*...rationalisations for keeping business small and simple
- Faced ‘unfair’ competition: *‘We follow the rules (taxes, product safety, regulations etc.), so how can we compete with online sellers, ‘fly-by-night’ or ‘illegal’ businesses?’*



## \*Experience of growth business owners

*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, 12 empl.)*

- Competing on quality, service or flexibility (which requires insight, research, planning etc.) is a difficult but ultimately rewarding strategy
- Businesses which had moved into niche areas relevant to their skillsets and attainable capabilities had often benefited



## (2.2) Bank 'reluctance to lend'

- Owners prefer stable cash-flow position before investing for growth; many with poor/unpredictable cash-flow believed they lacked ways to influence this
- Negative view of banks– seen as unwilling to lend with poor terms and conditions – discourages planning investments
- Options like factoring, crowd-funding rejected/not investigated - ignoring such alternatives can be consistent with *habitus*-based argument
- Underestimate their market power (e.g. demand inertia, customer loyalty); adopt weak position in recovering money or credit terms
- Lack longer-term planning/forecasting hampers your business case to banks/other lenders



### **\*Non-growth micro business owner**

*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)*

### **\*Experienced growth firm owners**

Those who started demanding (part-) payment upfront often found that clients were prepared to comply, valuing the supply relationship

*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, 18 empl.)*

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



## Summary of findings

- Preference to remain small can be entirely rational, underpinned by analysis of the relevant and correctly perceived variables
- But many owners wrongly interpret their position:
  - (1) poor/incomplete comprehension of relevant information;
  - (2) incorrect/incomplete processing of accurate information;
  - (3) information/processing affected by unconscious biases or beliefs about their situation
- Growth potential of wide cross-section of micro-businesses held back by misperceptions - stemming from a *habitus* reinforcing unconscious desire to stay small
- Society values business growth and 'objective' explanations... so rational business concepts – lack of access to finance or support - used to 'explain' decision (rather than their preference)



## Policies?

- 'Real' barriers potentially alleviated through interventions such as provision of accurate information and better business techniques, **but barriers also stem from unconscious perceptions**
- Attempts to improve/emphasise **strategy formation** may be undermined if framed within wrong 'mindset'
- Thus, rationalisations for remaining small need to be addressed
  - Not necessarily to push growth *per se* but encourage more rational/sound basis for owners to assess business capability based on the 'right' data
  - Use behavioural psychology to influence norms and standards held by microbusiness owners
  - Challenging the *habitus* could lead to actions to improve the business more generally



## Policies (cont'd)

- Rather than tackling the obstacle, intervention might seek to change the *perception* of it – what are common misperceptions and how might they be modified?
  - Disseminate examples of role model responses
  - Greater networking between growth/non-growth businesses
  - Specific diagnostic tools etc.
  
- Support must engage with owner's outlook, role in the business, work-life balance, 'lifestyle' measures of success. Pursuit of business growth/development may require new 'subject positions' – e.g. integrating business and personal success measures