The secret to running a successful small firm? Mind your own business

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Small-business owners need to recognise the particular needs of their staff and customers.
Why do some small firms survive and prosper, while others don’t? When you put this question to a business consultant, academic or even an experienced business person, their biases show immediately.

The answer may include: well-targeted marketing strategies, staff selection and support, outstanding customer service, a shared vision of the future … the list goes on. Lately the answer seems to be innovation. For small firms, the caveat may be how to best use limited resources to support innovation through, for example, collaborations.

While all these answers hold merit, the reality may just be a little more complex. In a recent survey of 2,100 Australian firms, we asked CEOs how they view success, and how they measure it. The results were insightful.

As expected, the answers were just as diverse as suggested above. Answers ranged from satisfying clients to increasing profit or growing and providing a quality product or service. Using a qualitative data analysis software package, Leximancer, maps were constructed to visually summarise the answers.

The maps summarise a count of the words that CEOs used most frequently. Words that appear in the same circle are used together frequently and the lines between words indicate a strong co-occurrence. Figure 1 summarises the responses.
Comparing firms that reported growth intentions with those that did not provides a more nuanced view of what success means to small firms. Figure 2 illustrates the views of the firms that reported no growth intentions, typically called “lifestyle” firms.

These firms, focused on maintaining the status quo or even reducing their operations, viewed success as the ability to satisfy customers, make a profit and repay the initial investment. Besides this, family, lifestyle, happiness, and retirement provision were all important to the owners or managers.

The close proximity of words and phrases such as “clients”, “employees” and “happiness” suggests that success is very personal, and often emotional to the CEO. These lifestyle businesses represented 20% of the respondents, and formed a group that is crucial to employment and service delivery in the Australian economy. They have few aspirations to grow, innovate or export. Often situated in more sheltered sectors of the economy, they were however still profitable.
An analysis of the open ended responses from the firms that had moderate or high-growth intentions is summarised in Figure 3. A different picture emerged. The CEOs of these firms were more focused on a broad range of stakeholders, including customers, employees and shareholders.

They also viewed success as the accomplishment of a broader range of goals, including profitability, customer satisfaction, employee happiness, shareholder goals, product/service quality and growth.

Few comments focused on the personal circumstances of the CEO. Instead, the focus was on the firm and its stakeholders. From other questions it was also clear that growth oriented firms were also more likely to devolve decision making; have sales from innovation; be larger; train staff; perform and grow better.
Figure 3: Success for growing firms

What do these findings tell us? First, they do not suggest that either type of firm is more important to the Australian economy than the other. Both types are important employers.

The Australian Bureau of Statistics estimates that in June 2009, there were 1.2 million non-employing firms, and another 500,000 that employ between one and four staff. Together, these essentially lifestyle businesses employ a significant proportion of the approximately 11 million working Australians. They also provide essential products and services, especially personal services. Therefore, while little attention is paid to them in media and academia, their continuous survival remains important.

Because most lifestyle firms only employ the owner, and maybe a few others, they viewed success as more personal. The firm has to complement the owner’s lifestyle aspirations in terms of making a living, providing for retirement and satisfying customers with whom they often have a close relationship.

Firms with growth intentions, especially those that ultimately attain sustained growth, viewed success differently. They were focused on the needs of a broad range of stakeholders and their ability to satisfy these needs. To attain growth the use of innovation, internationalisation, training, devolved decision-making and other sound managerial practices were crucial.
This holistic approach to management was important to support growth objectives. Growing firms therefore measured success through attainment of a broad range of goals, and used multiple managerial practices to attain it.

Henry Ford once said that a business that only makes a profit is a poor business. The results reported here reinforce this. Success rests in the ability to work out what is important to your business, and then take the necessary steps to attain it.

Whether it is by maintaining a lifestyle and providing self-employment, or growing a business for future generations, having a clear vision of the future and linking it with the appropriate actions are key.